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## CONTENTS

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### INTERNATIONAL

#### RUSSIA

Article Views Russian Foreign Policy Orientation, Goals *[GUOJI WENTI YANJIU 13 Jul]* ..... 1

#### NORTHEAST ASIA

Article Analyzes Why Japan Still Says 'No' *[GUOJI ZHANWANG 23 Jun]* ..... 6

#### POLITICAL

Importance of Training Reliable Successors in Marxism *[QIUSHI 16 Jul]* ..... 9

#### ECONOMIC

##### NATIONAL AFFAIRS, POLICY

Better Management of State-Owned Concerns Targeted *[GUANLI SHIJIE 24 Jul]* ..... 14  
Assessing Current Economic Boom, Perils *[CHING CHI TAO PAO 28 Sep]* ..... 21  
GATT To Impact Machine, Electronics Industry *[JINGJI GUANLI 5 Jul]* ..... 23  
SPC To Reform Planning System *[JINGJI RIBAO 25 Sep]* ..... 29

##### PROVINCIAL

Economic Development Zones Proliferate in Shaanxi ..... 31  
Hanzhong Prefecture *[SHAANXI RIBAO 13 Sep]* ..... 31  
Mianxian County *[SHAANXI RIBAO 14 Sep]* ..... 31  
Chenggu County *[SHAANXI RIBAO 15 Sep]* ..... 32  
Tongchuan City *[SHAANXI RIBAO 15 Sep]* ..... 33  
Baoji City *[SHAANXI RIBAO 15 Sep]* ..... 34  
Xianyang City *[SHAANXI RIBAO 16 Sep]* ..... 35  
Jingyang County *[SHAANXI RIBAO 17 Sep]* ..... 36  
Yongshou County *[SHAANXI RIBAO 16 Sep]* ..... 38

##### FINANCE, BANKING

Financial Institutions Support S&T Projects *[JINRONG SHIBAO 29 Sep]* ..... 41  
Economist on Market Economy, Capital Flow *[JINRONG SHIBAO 21 Sep]* ..... 43

##### ECONOMIC ZONES

Mayor, Experts on Shenzhen's Ties With Hinterland *[SHENZHEN TEQU BAO 26 Sep]* ..... 46

#### REGIONAL

##### CENTRAL-SOUTH REGION

Model for Enterprise Groups in Guangdong *[GUANLI SHIJIE 24 Jul]* ..... 53  
Shaoyang City Reports on Public Order Improvements *[QIUSHI 1 Jun]* ..... 58

TAIWAN

Editorial on GATT Membership Opportunity <i>[LIEN-HO PAO 10 Sep]</i> .....	64
Editorial on Economic Growth Factors <i>[LIEN-HO PAO 13 Sep]</i> .....	65
Editorial on Recent Stock Market Crisis <i>[CHING-CHI JIH-PAO 20 Sep]</i> .....	66
'Arms Sales Fool' in World Market <i>[TSAI HSUN 1 Oct]</i> .....	67
Taipei Analyzes Clinton's Trade Stance Toward PRC <i>[CNA]</i> .....	70

## RUSSIA

### Article Views Russian Foreign Policy Orientation, Goals

92CM0407A Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese  
No 3, 13 Jul 92 pp 5-10

[Article by Song Yimin (1345 0110 2404): "Influence of Nationalism on Russian Foreign Policy"]

[Text] The goal of Russian foreign policy is to reestablish itself as a power by integrating itself with the West. Within Russia, there is a difference of opinion regarding the extent and the pace at which Russia should side with the West. The West, for its part, is still somewhat leery of Russia's big power ambition. Neither internal nor external factors are enough to derail Russia's foreign policy from its goal. In recent days, however, apparently to mollify domestic sentiment, Russian leaders have been putting greater emphasis on national interests and making some statements inconsistent with the thinking of Western nations.

It has been a little over half a year since Russia appeared on the world stage as an independent nation. Russia was the most important among all the Soviet republics and is also the successor to the former Soviet Union. Naturally its foreign policy displays a distinct strand of continuity with that of the former Soviet Union before the latter's disintegration. Still it differs significantly from the former superpower in world stature and the geopolitical conditions on its periphery, which necessarily means that its foreign policy has its own new characteristics. Because the nation is still in its infancy and has its hands full dealing with a host of domestic problems, it has not yet fully hammered out its foreign strategy and policies, not to mention making them cohesive or filling in the details. Nor is there a complete consensus internally. Judging from the speeches by Russian leaders, however, the goal of Russia's foreign policy has been set, namely, qualifying as a member of the Western world and even striving to become an ally of Western nations. This article is a preliminary study of the content of this policy objective and the problems that have arisen in the course of implementing it.

#### 1. Russia's Foreign Policy Objective: Establish Russia's New Stature as a Power By Integrating Itself With the West

Specifically Russia aims to work its way from the outside into the inner circle of the Western world and integrate with it organizationally to truly become a member of the West so that it can replay the role of a great world power.

Yeltsin and Kozyrev have made it quite clear, "The core mission of Russia's international ambition includes the establishment of a stable partnership with democratic nations in the world to ensure that Russia can fully and legitimately and harmoniously join the community of civilized nations." (Footnote 1: Yeltsin's speech to the

Sixth Russian Congress of People's Deputies, 17 April 1992) It is the "strategic interest and diplomatic objectives of Russia to enter the extended family of civilized nations in the Northern Hemisphere," "to join the club of the world's most developed nations." (Footnote 2: Article by Kozyrev published in NOVOSTI, 31 March; his response to questions by NEZAVISIMAYA GAZETA journalists as reported by Russian News Agency-Tass Agency, 1 April) They have repeatedly declared that working out a proper relationship with other nations in the Commonwealth of Independent States [CIS] is the paramount issue in Russian foreign policy. The next highest priority is relations with the United States, Western Europe, and Japan. Next are relations with peripheral neighboring nations, but with the focus still on the United States, Europe, Japan, and South Korea. The relations between Russia and other CIS member nations are a unique issue, one that has just changed from a domestic problem into a diplomatic one. The true focus of Russian foreign policy, it may be said, is developing relations with the various Western nations both in scope and depth.

By setting such a priority, Russia makes it clear that it will continue making fundamental changes in the domestic and foreign policies of the old Soviet Union of recent years. Obviously Russia's foreign policy is a continuation and refinement of Gorbachev's "perestroika" diplomacy. A concentrated expression of Gorbachev's diplomacy was his strategic blueprint for a "Northern Hemisphere cooperation belt" put forward in November 1990. The strategic blueprint shows that Gorbachev was prepared to identify and cooperate closely with the West not only in values but also in security matters and economically and politically. In this respect, Russia's foreign policy is no different from Gorbachev's objectives but goes one step further. According to some political analysts in Russia and the West, Yeltsin has outdone Gorbachev in trying to get on good terms with the U.S. and Europe but has paid less attention to Asia than Gorbachev. As soon as he took office as president, Yeltsin declared that Russia should return to Europe because Russia has been a part of Europe for over 1,000 years.

But it is the unmistakable attempts by Russian leaders to align it with Western nations, even going so far as to dangle the prospect of Russia joining the North Atlantic Treaty Organization in the future, that provides the most solid evidence that Russia is prepared to nudge closer to the West. These gestures go beyond what Gorbachev ever did. While in office, Gorbachev talked about establishing a partnership with the West. Yeltsin, on the other hand, used the term "allies" in reference to the West. Russia and America, Russian leaders say, will graduate from partners to allies while Japan, now a partner, is a potential ally as well. (Yeltsin's letter to Miyazawa in February) As a matter of fact, Russia has begun integrating with the West organizationally. In the security and political arenas, there are the North Atlantic Cooperation Committee, a peripheral organization of NATO,

and the European Security Council, which is gradually taking shape. In the economic arena, we may see the materialization of a multi-tier European economic sphere led by Germany, centered on the European Community, and consisting of multiple outer circles made up of the European Free Trade Association [EFTA], Poland, Hungary, Czechoslovakia, other nations in Eastern and Central Europe, Russia, and other republics of the former Soviet Union in Europe and Asia.

In the final analysis, Russia's objective in making Western Europe the focus of its foreign policy is a desire to revitalize its position as a world power. Becoming a member of the West has two implications. One, it implies that Russia has been transformed economically and politically. Two, it implies that it has the capabilities, especially economic ones, to compete and stay on a par with Western nations. The problem now is that neither can be accomplished in a few short years. Some Russian commentators acknowledge that Russia is now mainly on the outer ring of the community of advanced Western nations and faces the difficult task of working itself from the outer loop of the world economy into the inner circle made up of advanced nations. It is the creation of conditions necessary for such a task that lies at the heart of Russia's foreign policy. (Footnote 3: "Soviet Union After the Breakup: Russia in the New World," as quoted in NEZAVISIMAYA GAZETA 12 March)

Russian leaders also admit that Russia's international stature has plummeted from that enjoyed by the former Soviet Union a few years ago and that its world power role has yet to be reclaimed. ....said that even becoming an "ordinary power as opposed to a superpower is no simple matter either. Russia still has a long way to go before it becomes an ordinary power surviving in a world that is not conflict-free." (Footnote 4: Kozyrev's answer to reporters' question as reported in NEZAVISIMAYA GAZETA 11 April) Faced with reality, Russia has no choice but to further scale back its diplomatic ambition. For a long time to come, it would remain too preoccupied with its own affairs, having to concentrate its energies on grappling with its domestic problems and relations with the other CIS member nations. There was a time when Gorbachev hoped to take advantage of the Soviet Union's unique position—it is the only Eurasian power—to be the critical link between Europe and Asia. While Russia is still a Eurasian power, it has been forced to give up for the time being its dream of being the link between Europe and Asia and dominating the world stage. Some commentators have pointed out bluntly that the idea of turning Russia into a bridge between Europe and Asia is pure fantasy, the reason being that owing to its poor economy, Russia has been shut out of economic integration in both Europe and the Asian Pacific area. Besides, more and more Asian countries have approached the level of economic development in Europe. (Footnote 5: MOSCOW NEWS 1 March)

## 2. Russia's Pro-Western Foreign Policy: Dissenting Voices At Home

In the Gorbachev era, there was little discussion within Russia about foreign policy matters. Only after the dramatic changes in Eastern Europe in 1989 did the old guard in the former Soviet Union start criticizing the government for making excessive concessions to the West. As soon as Russia became an independent nation, it had to figure out its national characteristics and its position in the world before laying down its foreign policy line and direction. Thus a foreign policy debate ensued within Russia. The debate basically does not concern itself with the goal of Russia's foreign policy mentioned above. Rather it focuses on the question: "Atlantic Doctrine or Eurasianism?" Is Russia essentially a European nation or a Eurasian nation separate from Europe? Ever since Peter the Great concluded that Russia was the backwater of Europe, this has been an often-debated issue in Russia. Some of the questions being argued in the debate today are: How should Russia reconcile the absorption of Western experience and the strengthening of its relations with the West, on the one hand, with the preservation of its own national characteristics, on the other? What kind of relations should it develop with the West? What place should the West and the East (geographically speaking) each occupy in the foreign policy of Russia? So on and so forth. In the latest phase of the debate in Russia, it is Eurasianism that has regained the upper hand. The reason is that even as Russian leaders pursue an increasing pro-Western policy at a time when Russia's international standing continues to decline, Western actions toward Russia have fallen far short of what Russia hopes.

The Yeltsin government is perceived as following the Atlantic Doctrine and it is some political analysts who have come out in favor of Eurasianism. In a more extreme version of the doctrine, it is argued that Russia should rely on old-time allies and friends of the former Soviet Union. (Footnote 6: MOSCOW NEWS, 1 March) Another proposal is that Russia should shift the focus of its foreign policy from the West to the East. But more representative is a third opinion: seeking some kind of balance between the West and East, North and South. (Footnote 7: Article by Sergey Stankevich, published in NEZAVISIMAYA GAZETA on 28 March; a speech by Shatalin, director of the Institute of Foreign Economic Relations, Russian Academy of Sciences and former deputy chairman of the Council of Ministers, as reported by Russian News Agency-Tass Agency, Moscow 23 March) Unable to reconcile themselves to the prospect of Russia being reduced to the status of a junior partner to the West, this group tries to use Russia's unique position—it straddles Europe and Asia geographically and includes a range of cultures and religions—to turn Russia into a broker between the West and East, North and South, a role that no other nation is equipped to play, thereby reclaiming Russia's place among the leaders of the world. As this group sees it, Russia should take greater pains to consolidate its base in the East and, for several years to come when it would remain outside

the Western economic club, devote itself to strengthening its relations with the "second echelon" of nations whose requirements of economic developments are similar to those of Russia, such as India, China, Turkey, Southeast Asia, as well as some countries in Latin America, and southern Europe. All these countries are striving to integrate themselves into the world economy and pushing ahead with reform without losing their national characteristics and dignity. This school of thought has attracted broad attention at home and abroad and may exercise considerable influence on the final shape of Russia's foreign policy because of three new developments: a powerful resurgence of Russian nationalism recently; changing geopolitics in Russia's periphery; and the search by Russia for a model of transformation suited to its national conditions.

1) Expressions of Russian nationalist feelings can be found not only among the conservatives but also among "democratic groups" and are getting stronger by the day. There are people in both camps who believe that the government has gone too far in courting the West and are unhappy about this situation. They emphasize Russian interests and demand that the government work harder to preserve Russian characteristics.

Reportedly the democratic camp had split into two groups even before the events of August 19. One group calls for full-fledged Westernization. The other is firmly opposed to letting Russia decline to the level of a third-rate nation and advocates greater Russianism. Vice President Alexander Rutskoi has said that he does not want Russia to become the first among banana republics. (Footnote 8: NEW TIMES, No 6, 1992) One proponent of the doctrine of a balanced Eurasianism is none other than Sergey Stankevich, advisor to Yeltsin and a former mayor of Moscow. Many long-time democrats, including Khasbulatov, parliament speaker; Anatoliy Sobchak, mayor of St. Petersburg; Peter La Ke Fu [2139 4430 1133], an economist; and Arbatov, director of the Institute of the U.S.A. and Canada, have criticized in recent days the failure by the International Monetary Fund to take Russia's conditions into full consideration. The democratic groups are the political pillar of the Yeltsin regime and their opinions play a major role in shaping government policy.

Even more dissatisfied with the government's pro-Western stance are the conservatives, who remain a powerful force in the Russian Congress of People's Deputies and local governments. According to an analysis of the composition of the Russian Congress of People's Deputies, 22 percent, 36 percent, and 21 percent of them are made up of high-, middle-, and low-level officials, respectively, of the former ruling strata, and only one-fifth of them deputies come from other professions. (Footnote 9: NEW YORK TIMES, 5 April) The Sixth Russian Congress of People's Deputies, which closed on 21 April, fully laid bare the conflicts between the government and parliament, between the central government and local authorities. It also brought out the highly anti-Western sentiments among the deputies. The

Russian government came out with a direct attack on the Congress of People's Deputies as well as local power and government organs. In his closing speech to the gathering, Yeltsin took the congress to task for demonstrating what he called a "cold-war spirit." He even proposed on 30 April that a referendum be held on the abolition of the congress. Gennadi Burbulis, secretary to the State Council, has referred to the Congress of People's Deputies and local committees as the "last historical link to totalitarianism." (Footnote 10: NEW YORK TIMES, 5 April) According to Kozyrev, neo-Bolshevism is being followed in some areas. (Footnote 11: Russian News Agency-Tass Agency, Moscow 10 April) Despite their dissatisfaction with the Congress, however, Russian leaders cannot afford to totally ignore this political force in formulating the nation's foreign policy.

2) Geopolitical changes have shifted Russia's political center of gravity toward the east. In geographical terms, Russia is now largely separated from Eastern and Western Europe by the Ukraine, Belarus, and the three Baltic republics. In Europe, Russia now shares a common border with only Finland. Other than the Russian-Finnish border, the only piece of territory it has in Europe is the region of Kaliningrad. With Belarus and the Crimea gone, the western border of Russia curves much further toward the east than was the case under Peter the Great. Moreover, Russia has many conflicts and differences with the Ukraine and the three Baltic republics. The independence of several republics in Central Asia, their firm support for maintaining the CIS system, and the competition between the Muslim nations around them in Asia as well as the jockeying for influence between these nations, on the one hand, and Western powers, on the other, all determine that Russia pay closer attention to the Muslim world. Furthermore, the Asian elements within the Russian federation itself are growing in importance. There is the long-term strategic and economic need to develop Siberia. Two Muslim republics—Tatarstan and Yakutia—are showing the strongest agitation for independence.

3) The economic development model of the East has stronger appeal to Russia. How to transform Russia economically? The Eurasianists' answer is the Eastern model, that is, one that combines strong governmental authority with a market economy. The Eurasian school argues that this model is better suited to Russia's historical traditions and national conditions. This is also what the leaders of the democratic camp have long advocated. During Gorbachev's visit to Japan in April 1991, his advisers showed a good deal of interest in Japan's postwar economic success story. It is thought that Russia and Japan share a similar economic management tradition and that there is much in Japan's experience that Russia can emulate. In spring last year both President Volksy (reportedly a prospective contender for the prime ministership) of the then Science and Industry Association (now the League of Industrialists and Entrepreneurs) and Yavlinskiy, an economist, called on the government to pay more attention to the development

models of Japan, South Korea, Singapore, and China. And the pursuit of radical economic reform under the leadership of a powerful and effective government is precisely what the Yeltsin regime is pursuing today.

These three new developments do not mean that Russia would waver from its Western-oriented foreign policy. Rather they do suggest that Russian leaders would seek to accommodate other needs as appropriate even as they continue to keep the West the focus of its foreign policy.

### 3. The West Encourages and Lends Strong Support to Russia's Drive for Westernization But Is Leery Of Its Ambition of Becoming a Great Power

Cooperation from Western nations is essential to Russia's Western-oriented foreign policy. The West has been taking a positive attitude toward Russia. In the words of James Baker, it is the opportunity of a lifetime to the West. The Western nations fully support the push by Russia for political pluralization, for a market economy, and for the expansion of privatization. The West has and will continue to provide economic aid to Russia, participating in all aspects of Russia's internal transformation. The very desire of Russia to "entire the family of civilized nations in the Northern Hemisphere" is precisely what leading Western nations have called for. The establishment of a "great inter-continental alliance," "a zone of peace and prosperity," free and democratic and stretching all the way from Vancouver to Vladivostok, is a goal embraced by U.S., Germany, and Britain. In the near term, Russia and the West have an acute need for one another. Russia depends on economic assistance from the West to ease its serious economic crisis at home and help it continue its drive for economic reform. It also would like the West, including the host of Western-led security mechanisms in Europe, to get involved if need be to prevent the disintegration of the CIS in a violent struggle. (Footnote 12: According to a report in MOSCOW NEWS on 6 April, serious clashes occurred in 180 locations across the CIS in March 1992 (compared to 76 in the same period last year) and unrest broke out in a combined area of 7 million square kilometers which are home to 30 million people in all.) For its part, the West is very worried that the CIS would dissolve into utter chaos as a result of dissensions within the member nations or conflicts among them. With this consideration in mind, they support Russia's current effort to stabilize the CIS and hope that Russia would prove to be a stabilizing force, particularly by preventing a loss of control on nuclear weapons.

After all is said and done, however, Russia is a world power with its own national interests and cannot march in lock step with the West all the way. Russian leaders have stressed time and again Russia's national interests. Addressing the Russian Congress of People's Deputies on 7 April, Yeltsin described national interests as the cornerstone of Russia's foreign policy and the basis of policy design. Earlier in February Yeltsin had already said that the popularization of democratic values does not mean that Russia would turn its back on national

characteristics, that Russia would not want to be assimilated into its new friends, that partnership and friendship absolutely does not require Russia to forget its own geo-political, economic, and other national interests. (Footnote 13: Russian News Agency-Tass Agency, 26 February) In an article published in the spring issue of FOREIGN AFFAIRS, the American journal, this year, Yeltsin wrote that Russia would put national interests before all else and that a day would come when Russia would again become the leading economic competitor of many a foreign nation.

Russia's basic goal in aligning itself with the West is to revitalize itself in the future. Western nations, on the other hand, are reluctant to see Russia re-emerge as a real power. Their goal in admitting Russia into a host of organizations led by the West is to restrain and remake Russia. Russia knows full well the intentions of the West. Addressing a joint session of the U.S. Congress on 14 May, Gorbachev said that despite the terrible plight his country is in today, tomorrow it will be a great and prosperous power and asked the West not to try any policy that would reduce Russia to a second-rate nation. One side wants to stay intact and develop. The other seeks to limit and weaken its role as a major power. These two different policy considerations, one held by Russia, one held by the West, have begun to manifest themselves in two issues.

The first issue concerns Russia's military strength. As Russia sees it, preserving its modern military machinery is an important guarantee of its big-power status. While the size of the armed forces will be scaled back considerably, the extent of modernization must be increased without interruption. It wants to keep its nuclear shield as well as its army, navy, and air force. In addition, it insists on building up a rapid response force. (Footnote 14: NEW TIMES No 12, 1992) As Deputy Defense Minister Kokoshin put it, Russia must possess a reliable military force that would not impose an onerous burden on the economy but would still come with a high price tag. (Footnote 15: Kokoshin's reply to a question by KURANTY reporter, 15 April) He also said that nuclear weapons and the entire military arsenal is a guarantee of Russia's great power status. Nuclear weapons, according to the deputy defense minister, have become a potential bargaining chip not just between enemies but also between friends and allies. (Footnote 16: NEW TIMES, No 8, 1992)

Militarily the West still considers Russia with its unpredictable future the prime defense target. "Defense Planning Guide for Fiscal Years 1994-1999" put out by the U.S. Defense Department makes no attempt to disguise America's intent to prevent a Russian military resurgence. Western nations will continue to weaken Russia militarily through arms limitation talks and doing their utmost to prevent its modernization. They also seek to transform the Russian military through various military cooperation measures, breaking up or thoroughly reorganizing the Soviet military enterprises so that the Russian military can be put to use to serve Western purposes

if the need arises. That America and Germany have even been luring away Russia's high-tech personnel from its military scientific establishments and defense industry with high wages a drastic step to deal with the situation. America's long-term hesitation over purchasing Soviet space technology grows out of a desire to deny Russia the funds it needs for military modernization.

The second issue is Russian leadership within the CIS. The foreign policy of the CIS, which takes center stage in Russian foreign policy, directly serves the purpose of preserving Russian leadership. Even when the format of the CIS proves unsustainable and is altered, Russia must establish and further its de facto leadership within the CIS. Besides continuing to strengthen the CIS, Russia has stepped up bilateral and multilateral diplomatic activities vigorously and is making plans to establish special relations with it.

As for the West, while it wants Russia to play a part in preventing chaos in the CIS, it would not like to see Russia become so powerful that it dominates it. All Western nations are strengthening ties with other major CIS member states to prepare for the day when they may have to rein in an excessively powerful Russia. Kissinger has openly suggested that a buffer zone comprising the Ukraine and other nations be established between Russia and the West. Accordingly Russia's relations with other countries in the CIS may become a bone of contention in Russian-Western relations in the future. Some Russian reporters have suggested these possible scenarios. Should Russia clash with other nations in the CIS, the U.S. would intervene by putting pressure on Russia. Or if Russians are unfairly treated in the three Baltic states and Russia plays tough, Western Europe would side with the Baltic republics. (Footnote 17: MOSCOW NEWS, 12 January)

Even as it supports Russia, the West is also on guard against it. This attitude on its part has an effect on the final formation of Russian foreign policy.

#### 4. Internal and External Constraints On Russian Foreign Policy

It seems that internal and external factors have begun to have a constraining effect on Russian foreign policy. Judging from their speeches and writings in recent days, Russian leaders are seeking to accommodate nationalist sentiments at home and selectively adopting some of the proposals of those who advocate a balanced Eurasianism. Yeltsin said on 28 April that Russia would not necessarily go along with the IMF completely in drawing up its economic policy and that Russia does not see eye to eye with that organization. Russia would not accept American superiority in nuclear weapons. As a result of America's failure to respond to Russia's unilateral moratorium on nuclear testing, Yeltsin will demand a total ban on nuclear testing or a reduction of such testing to the lowest level during his trip to the U.S. in June. As a matter of fact Yeltsin has already issued an order in late February on the resumption of nuclear testing. In the

article in Foreign Affairs cited previously, Kozyrev noted that given its geo-political position and its role in history as a bridge between East and West, it is imperative that Russia follow an active "Oriental policy." Russia, he said, must give priority to normalizing relations with Japan and a bright future awaits Russian-Japanese relations. The establishment of a balanced four-sided relationship between Russia, U.S., Japan, and China would help stabilize the Asian Pacific region and enhance cooperation there.

Ai A Jia Yi Fu [1947 7093 0502 5102 1133], an adviser to Kozyrev, published an article titled "Russia Above All Else" in MOSCOW NEWS on 10 May. In the article, he wrote that Russia should abandon the slogan of serving the interests of communism first, mankind second and openly declare the national interest to be the number 1 interest, that Russia must fiercely defend its own interests in a relentlessly combative world, and that it must overhaul its relations with the Third World in order to gain powerful leverage in its bargaining with the West. As far as human rights are concerned, Russia must not drift into the pursuit of a new messiah; instead it must put its own house in order first while respecting the different cultural backgrounds and traditions of other countries. On disarmament, Russia cannot afford to please its Western partners at all costs but must weigh all pros and cons. Besides, Russia must have all appropriate means to defend its own national security.

The desires of Russian leaders are not fully compatible with the sentiments of a number of influential people at home. Russia's national interests differ from those of Western countries, which manifests itself in the way the Russian government handles some foreign policy matters. A breakthrough in Russian-Japanese relations is critical to Russia's Oriental policy. As for Japan, it makes the return of the four northern islands a precondition for any breakthrough in Russian-Japanese relations. While Russian leaders too would want to resolve the northern territories issue, Yeltsin and others have referred to awkward domestic sentiments more than once. So far Yeltsin's position is that the final return of the islands would have to await the next generation. As for the sale of weapons and military equipment to other nations, Russian leaders have made it quite clear that such sales, a key source of foreign exchange for Moscow, must continue. Not only must Russia keep its current markets, but it must also open up new markets, including some Third World nations that America and other Western countries have been working hard to keep out of the arms market. The conflict between Russia and the U.S. in this area is becoming clearer by the day. Already the U.S. has imposed some sanctions against Russia and India in response to the sale by Russia of its rocket technology to India. Without naming the U.S., Burbulis, secretary to the State Council, has criticized Washington for attempting to write the rules on a global scale without considering the interests of its partners. (Footnote 18: (WASHINGTON POST, 6 May)

Having said that, cooperation remains the keynote in Russia's relations with the West in the short run. Russia's need for the West is both enormous and urgent. If extensive unrest breaks out in Russia, it would make trouble for the West. Otherwise, Russia does not constitute a challenge to the West, so the latter would do its best to help Russia. In the long haul, however, with its tremendous potential Russia will certainly reclaim its old power and again play a major role in world politics. At that time new changes may occur in Russia's relations with the West.

Russia's foreign policy objectives have become clearer, as have some of the external and internal constraining factors. But to what extent and in what ways will these factors affect Russia's foreign policy is a question that awaits further observation and research.

## NORTHEAST ASIA

### Article Analyzes Why Japan Still Says 'No'

92CM0399A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 12, 23 Jun 92 pp 12-14

[Article by Luo Jun (5012 6511): "On Why Japan Still Says 'No'"]

[Text] At a time when the old international strategic structure has disintegrated but has not yet been replaced by a new world order and when Japan continues to firm up its economic muscle, the hawks in Japan's political circles led by Ishihara Shintaro, a politician, have been busy writing books and giving lectures, penning a string of three books—*Japan Can Say "No"*, *Japan Can Still Say "No"*, and *Japan Must Say "No"*—which have stirred up sharp reactions in the United States and around the world. The message that these books send to America and the world is a warning: "No, no, no." If "no" meant refusal in the ordinary sense of the word, it would be no cause for alarm. However, even as Japan says "no, no, no," it is increasingly covetous of the stature of a political power. The end of the cold war, the dissolution of the mighty erstwhile Soviet Union, and the Gulf war, in particular, have acted as a stimulant in Japan. It used to say "no" cautiously, then boldly and confidently, and now firmly. This has been a most intriguing development.

#### 1. Why Japan Keeps Saying "No"

A review of Japan's history readily shows that its iron heel devastated many nations. During World War II, Japan attacked the Orient brutally, launched the Pacific War by taking on the United States, and swept through the Philippines, Indonesia, and Indochina in a ferocious onslaught. For a while, Japan was poised on the threshold of world domination. But history emotionlessly mocked the Japanese with their dream of building an East Asia co-prosperity sphere. When the emissary of the Japanese emperor signed the surrender papers on board the warship USS Missouri as a vanquished nation,

Japan felt keenly that the glory of the imperial sun had vanished forever. But times have changed. Nowadays some Japanese do not seem to want to learn a lesson from Japan's defeat in the war. On the contrary, they seek to use all sorts of excuses to shift the responsibility for the war and find every reason to justify its war of aggression. Right now the person working hardest for this cause must be Ishihara Shintaro. Listen to what he has to say about the justice of the war. "There is no justice in war, only national interests. So-called justice is nothing more than a gimmick, a diplomatic tactic." As for Japan's unleashing a war of aggression, Ishihara explained it in this way, "The Showa emperor's edict hinted at what modern American historians are saying. Encircled by an economic blockade by ABCD [acronym as published] (America, Britain, France, and the Netherlands), Japan would not be able to survive. We did not want to fight but had no choice other than to fight. This is a fact that the imperial edict revealed." On the one hand, Ishihara had to justify Japan's past war of aggression. On the other hand, it seems that he would like nations previously ravaged by Japan to thank her for its barbarian aggression. Listen to his bizarre logic, "Had Japan not been involved in the war, the world today would have remained one where white people impose colonial rule on people of color." Turning things upside down, Ishihara shamelessly touted as an achievement the unmitigated disaster Japan caused other nations. At a deeper level, what he is doing is more than absolving Japan of the war crimes it committed in the past. He is also paving the way for the final implementation of a long-term "no" strategy.

We know that Japan's tyrannical domination in World War II was short-lived; in no time, its dream of hegemony was mercilessly dashed. While the dream was dashed, its spirit still survives in Japan today. As the world situation evolves, some Japanese of "great talent and bold vision" begin to revive the old dream and hope to fulfill it by saying "no" repeatedly. "Japan must stay clear-headed in the great tide of history. She will be on par with the nation on the other side of the vast Pacific—the United States, becoming another center in the world. She is riding the crest of the civilization of the future." This is not sufficient. Ishihara also wrote, "I believe that Japan, the United States, and Europe will be the three forces that will dominate world civilization in the future." When you consider that Europe is included as a future dominating force in civilization, *Japan Must Still Say "No"* is then lifting up Europe. After the war in the Persian Gulf, Japan overnight seemed to believe that its influence and role in the world were much greater than it had previously believed. Such a belief only made Japan's "no" that much louder and more confident. In *Japan Must Say "No"*, Ishihara did not mince words. "In short, I believe the new civilization born of chaos to control the world will come out of the interactions (including economic conflicts) between the United States, the last representative of the West, and Japan, the sole representative of the Orient in the modern world." There is no room for Europe in this blueprint of the future.

## 2. The Background to Japan's Repeatedly Saying "No"

There have been dramatic changes in the world since 1989. Forces that made up the international strategic framework have all been shaken up and rearranged. Countries have been forced to rethink who is a friend, who is an enemy, and make re-evaluations and new choices. The end of the Cold War and demise of the struggle for hegemony between the United States and Soviet Union, in particular, has thrown international relations into an uncertain, complicated, and changeable era.

1) The reconciliation between the United States and the Soviet Union and the disappearance of a source of danger for Japan have given the Japanese an opportunity to say "no" and prompted it to reevaluate its position and role in the world. For more than 40 years after the conclusion of World War II, Japan put up with the humiliation of being under United States control. To tighten its grip on Japan, the U.S. wrote a constitution for it and signed a security treaty with Tokyo. Both have worked to keep the Japanese on a tight leash for decades. Japan toed the United States line for almost half a century. Inside it was seething with anger, but faced with enormous military pressure from the Soviet Union, it had no choice but to put up and shut up.

There was a gradual thaw in U.S.-Soviet relations during the late 1980's. The two superpowers, former bitter enemies, shook hands and became friends, to the enormous benefit of Japan. The reason is that the end of U.S.-Soviet confrontation suggests the disappearance of a danger that had posed a huge threat to Japanese security, a danger that had always had the Japanese worried. Yet the United States has not eased up on its control over Japan because of the end of the cold war. After a bold re-evaluation of its relations with the United States, Japan discovered that instead of protecting it, the United States is actually using Japan to serve its global strategic interests. As this new awareness dawned on the Japanese, they had to give vent to the resentment and grievances bred by decades of subservience to the United States. Naturally the constitution and the U.S.-Japanese security treaty, both of which have hamstrung Japan in so many ways, became the first targets. Japan hopes to remold its postwar consciousness and change its image in international affairs by first attacking those two straitjackets. Saying "no" is a natural product of this historic opportunity and a resurgent sense of independence among the Japanese.

2) As far as Japan is concerned, German reunification is a powerful temptation to say "no." In World War II, Germany shared Japan's fate; like Japan, it suffered the humiliation of defeat. Henceforth its stature in the world plummeted; not only was it excluded from the Security Council of the United Nations, but it was occupied for years. Compared to Japan, however, Germany was under fewer restrictions and was kept on a longer leash, so it enjoyed more freedom. Both were defeated nations under American control. Why was

Japan treated so differently? Japan blamed this on America's racial prejudice. Whatever the reason, the Japanese felt deeply wronged and resentful and believed that they had been unfairly treated. Now that it has been reunified, Germany has become notably stronger and increasingly assertive in its dealings with other nations, forcing the international community to treat it with new respect. All this has been vastly upsetting to the Japanese. In its quest for fair treatment, it cannot but have to re-examine its past and future. As long as it remains under U.S. control and continues as a junior partner who can only say yes, Japan will never graduate to being a senior partner. To bring about such a change, Japan must begin by saying "no."

3) The Gulf war has solidified Japan's confidence to say "no." Japan coughed up \$13 billion with extreme reluctance to help the United States pull off a spectacular victory in the war. But the Japanese got no thanks for their trouble; instead, it was blamed by the United States for being a mere spectator and not shedding a single drop of blood. The Japanese, for their part, argued that it was Japanese technology that enabled the United States to reduce its casualties and win the war handily. The Japanese argued that Only the application of Japanese science and technology in the war saved the U.S. economy from negative growth. What irks the Japanese is that instead of showing gratitude to them, the United States turned around and chided them for "not contributing enough." Once again Japan reaped the bitter harvest of saying "yes" and of encouraging the United States to rebuke it at the drop of a hat. The upshot is that Japan is now much more determined to say "no."

## 3. Japan's Ability To Repeatedly Say "No" Rests On Its High-Tech Superiority And Mighty Economic Powers

Japan plays its high-tech edge like a trump card. Ishihara said, "Had Japan sold its semiconductor technology to the Soviet Union and not the United States, the military balance between them would have been upset instantly, leading to significant changes in the situation." "Software for the computer systems in the weapons was developed by the United States after reviewing its experience in the field in past wars. But there is absolutely no doubt that Japan's electronics industry was a key support of the hardware and enabled it to achieve such dramatic results."

Besides playing its high-tech trump card, Japan's courage to say "no" to the United States time and again is also backed up by formidable economic strength. Japan is the largest creditor nation in the world today, having launched an economic offensive worldwide by exporting capital on a massive scale. Even the United States, long known as the "dollar empire," is now heavily indebted to Japan. Ishihara said, "If the current situation continues, the United States' net debt to Japan will be \$1,300 billion by 1995, regardless of how hard the United States may work to turn its economy around. By then net Japanese assets in the United States will amount to \$700

billion, for a total of \$2,000 billion, a colossal figure. The way things are going, the actual number may be even higher." Based on this kind of analysis, Japan concludes that the United States cannot but remain dependent on it. During the Gulf war, Japan did not use this relationship to blackmail the United States but ended up taking a hit from Washington, from which they are still smarting. The more clearly Japan sees the essence of U.S.-Japanese relations, the more emphatically she says "no."

#### 4. Japan's Dilemma When It Says "No"

Japan boasts formidable economic muscle and superiority in some areas of high technology, but this "capital" is not enough to enable her to stand up to the United States and put it on an equal footing with that nation. Mr. Ogawa does not shy away from this fact. He said, "I once called Japan an 'economic power without brains.' Without a brain-like system, Japan will not achieve parity with the United States no matter how outstanding its people." The arrogant Ishihara may be given to trumpeting certain superior aspects of Japan, but has never claimed that Japan already has the muscle to contend with the United States across the board. He dares not say so, even though he would like to, because he knows full well how Japan stacks up in a comparison of overall national strength. He said, "The United States is the one nation in the world with the most economic potential. It has a large population, a vast territory, and inexpensive land, and is a dozen times ahead of Japan

and Europe in research in cutting-edge technology. It is fully equipped to produce top-notch goods at the lowest cost anywhere in the world." On the one hand, Japan must acknowledge America's strength. On the other, it wants to show off its own formidableness. Thus is Japan caught between saying "no" and saying "yes." Let us see what Ishihara has to say, "However, we must loudly and clearly say 'no' to the United States, which still stubbornly emphasizes that only America can lead the world. The archaic idea that if we do not accede to American proposals we will be isolated in the world, must be discarded. For both sides, and for the world, we must avoid worsening our relations with the United States deliberately." "We know we cannot afford losing the United States right away. In order to promote more harmonious and mature relations with the United States, to be able to say 'no' to the United States unequivocally in some situations, Japanese politicians must first summon the courage to say 'no' to some of their own people." "If Japan loses the United States, the United States will also lose Japan." It is precisely this mutual dependency that makes U.S.-Japanese relations so complex. Japan would like to part company with the United States, but cannot afford to do so, yet as long as it cannot part company, it finds the situation unsatisfactory. It can neither brazenly say "no" nor reconcile itself to being a junior partner to the United States. Even when it says "no," it cannot help but say "yes." Japan feels deeply torn.

## Importance of Training Reliable Successors in Marxism

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[Article by Zhang Zhen (1728 7201), commandant and political commissar of the National Defense University: "Consistently Training Reliable Successors With Marxism"]

[Text]

### I.

Applying Marxism to training successors is our party's glorious tradition and is also Comrade Deng Xiaoping's constant idea. In his important talks early this year, Comrade Xiaoping once again stressed: The key factor deciding whether or not China's affairs can be properly handled; whether socialism, reform and opening can be maintained; whether the economy can be developed faster; and whether or not the nation can keep long-standing peace and order, in a certain sense, lies in the personnel arrangements. Comrade Jiang Zemin also pointed out more than once that promoting the training of successors and ensuring that the leadership of the party and the state at various levels is held by people faithful to Marxism is an extremely important strategic issue, directly concerning the destiny of the party and the state. This profoundly explains the extreme importance of training reliable successors with Marxism.

Consistently training successors with Marxism is an objective requirement in the development of the socialist cause. This issue pinpoints the experiences, both positive and negative, of the world socialist movement. In recent years, profound changes occurred in the world socialist movement which has encountered some serious setbacks. Evolution has occurred in some socialist countries and this provides a profound lesson for us. Apart from the economic reasons, the most important reason for the drastic changes in the socialist countries lay inside the ruling Communist Party and the crucial problem was that no reliable Marxist successors were found. Our party has always attached importance to Marxist education and particularly to applying Marxism to bringing up successors to the cause of revolution and construction. Therefore, when the party and the cause led by the party is faced with the crucial juncture of life or death, a large number of revolutionaries faithful to Marxism can step forward bravely to turn the tide and guide the whole party to the correct path. The victory in suppressing the revolt in 1989 defended the achievements of the new democratic revolution and the socialist revolution, defended the socialist system, and defended the achievements of the socialist system. It provided a new example. At present, our country enjoys political and social stability and the pace of modernization, reform, and opening is being quickened. This offers a striking contrast with the countries that have undergone drastic changes or dissolution. This shows that which people

hold the leadership of the party and the state is a matter of great importance and must not be neglected.

Consistently training reliable successors with Marxism is a long-term strategic task for implementing the party's basic line and building socialism with Chinese characteristic. The great practice and the brilliant achievements since the Third Plenary Session of the 11th CPC Central Committee have amply proved that the party's basic line marked by "one center, two basic points" is a Marxist line that guides our country's socialist cause to develop vigorously. Implementation of the party's basic line must be guaranteed by the party's organizational line. On this point, Comrade Deng Xiaoping explicitly pointed out in 1979: "China's stability and the realization of the four modernizations must be guaranteed by a correct organizational line and by successors who really adhere to Marxism-Leninism-Mao Zedong Thought and have strong party spirit." (*Selected Works of Deng Xiaoping (1975-1982)* p 178) Recently, he once again said earnestly: If any trouble occurs in China, the root cause will lie inside the Communist Party. We must be soberly aware of this and should pay attention to the training of successors. It is necessary to select people with both political integrity and work ability for the leading bodies according to the requirements of "being revolutionary, younger, well-educated, and professionally competent." This is the prerequisite for keeping the party's basic line valid for 100 years and maintaining the country's stability and order over a long period of time. This is a matter that really concerns the overall situation. His remarks profoundly reveal the inherent relationship between training successors with Marxism and implementing the party's basic line. We should be aware that we have a long way to go in correctly implementing the party's basic line and building socialism with Chinese characteristics. The advances will not be smooth sailing. We will often encounter obstacles, some from the international hostile forces and others from the disruptive influence of the "leftist" and rightist ideological trends at home. At the same time, due to the lack of experience, we may make various errors in our practical work. However, as long as there is correct leadership of the party Central Committee which adheres to Marxism and there are leading bodies faithful to Marxism at all levels, we will be able to frustrate the sinister plots of the hostile forces, effectively overcome various erroneous deviations, discover and correct errors in our work in good time, and guarantee the full implementation of the party's basic line. Some Western bourgeois politicians predicted that after the drastic changes in the Soviet Union and Eastern Europe, China may not change for the time being because the older generation is still alive but China will inevitably change 60 to 70 years after the founding of the People's Republic. This is just their wishful thinking but we must not take such a dangerous possibility lightly. The key lies in whether we can consistently train successors, generation after generation, in Marxism, to ensure that the leadership of the party, the state, and the Army at all levels will always be held in the hands of reliable successors.

Consistently training reliable successors with Marxism is also an urgent and important task for our party and state.

During the next 10 years we will undergo a period of crucial importance for our country's economic and social development. It will also be a period of crucial importance for the power transfer from older to younger cadres. In the 10-some years, our party has nurtured and promoted a large number of young and middle-aged cadres according to the four requirements for building the cadre contingent and according to the standards of having both political integrity and work ability. In the next few years, the number of young and middle-aged cadres will continue to increase substantially. Many of them will move into key leading positions and join high-level leading bodies. These cadres represent the generation that links the past with the future. Their quality will determine whether or not our achievements can be consolidated and developed and whether we can step into the 21st century with great vigor and dynamism and achieve the grand three-step strategic objectives of building socialism with Chinese characteristics by the middle of next century. These young and middle-aged cadres grew up under the party's education and in the circumstances of socialism. They were also tempered in the practice of reform and opening. In addition, they have mastered a higher level of scientific and cultural knowledge and have a stronger sense of innovation and creation so that they are a promising generation which can accomplish great things. We should fully trust them. However, it should also be noted that many of them have generally not received the basic theoretical training of Marxism and strict party spirit tempering, thus their theoretical and practical foundation is insufficiently solid. In addition, they have not been tempered in difficult conditions and do not deeply understand China's history and national conditions. Some of them have been influenced by various erroneous ideas. This is unsuited to the important historical mission they are shouldering. Therefore, the pressing task in training successors to the socialist cause is to attach great importance to education and training for young and middle-aged cadres and actually do a good job in this field so that their mastery of Marxism can be enhanced and they can become mature as soon as possible and competently fulfill their historical mission of linking the past and the future in the course of implementing the party's basic line and developing the cause of socialism.

## II.

To consistently train successors with Marxism, we must always grasp this key point: This work must be conducted closely around implementation of the party's basic line in various periods. The party's political line determines the party's organizational line and the organizational line in turn should serve the party's political line. After the party's political line is established, depending on which people carry it out, that is, whether they are supporters, or opponents, or middle-of-the-roaders, will lead to totally different outcomes. The party's historical experience tells us that precisely because our party is good at training and selecting, according to the specific requirements of different historical periods, cadres who can correctly understand the

party's political line and can bravely struggle for the fulfillment of the party's line for shouldering the key leading duties, this guarantees that the party's cause can continuously further develop. After the Third Plenary Session of the 11th CPC Central Committee, the older generation of proletarian revolutionaries represented by Comrade Deng Xiaoping, creatively put forward the issue of bringing along successors who are revolutionary, younger, better educated, and professionally competent and building the contingent of cadres under the guidance of the Marxist ideological line and in light of the requirements of the party's political line in the new historical period. This represents our party's scientific summation of the historical experience in the aspect of consistently training successors with Marxism and our party's accurate assessment of the new situation. It determines the orientation of the party's organizational work after the focus of the party's work is shifted to economic construction; it is suited to the requirements for successors set forth by the party's general line and general tasks in the current stage; and it provides the organizational guarantees for the implementation of the party's basic line. The formulation of the "four requirements" is also the crystallization of the basic principles of Marxism with the realities in the contemporary Chinese revolution and construction.

To meet the "four requirements" for building the cadre contingent is a general requirement for the personnel quality of successors in the new period. The "four requirements" constitute an interrelated and inseparable entity, which includes political, professional, and physical requirements. To sum up, successors should be both politically reliable and professionally competent and should be full of energy, being in the prime of life. To meet the "four requirements" for building the cadre contingent, we should correctly understand and handle the dialectic relationship between the "four requirements" and overcome such erroneous tendencies as one-sidedness and absoluteness.

In the final analysis, to consistently train successors with Marxism and unify the requirements of being revolutionary, young, well-educated, and professionally competent for building the cadre contingent, we should unify them around the party's basic line of "one center, two basic points" in training, assessing, and selecting successors in the great practice of fully implementing the party's basic line and building socialism with Chinese characteristics. To assess and select cadres we should, under the premise of adhering to the party's basic line, mainly observe their attitude toward reform and opening and their innovative and creative spirit. We should see whether or not they dare to grasp and manage things, whether they have a truth-seeking and realistic work style, whether they can unite other people, whether they have influence and popularity, and whether they have organizational ability. We should assess their work performances and assess their political quality and work ability according to their work performances. The assessment of work performances is the most important, and

also the most difficult part of the work. In real life, some cadres have high aspirations and enterprising spirit in carrying out reforms and have also achieved initial results in their work. Of course, unavoidably, they have various shortcomings and problems and may even make certain errors in their work. So, they are often attention-attracting and controversial figures. Whether we can objectively observe, correctly assess, and boldly use controversial cadres is an issue concerning whether we can act selflessly without regard to personal gains and losses and whether we are determined to select the right leading personnel for the cause of modernization. This also concerns what yardsticks we are using to assess cadres and what thinking methods we are using to screen them. When handling controversial figures, we cannot have many misgivings and fears, be hesitant and indecisive, and cannot act recklessly without making careful investigations and distinguishing right from wrong. We cannot just irresponsibly cast these controversial cadres aside and only direct attention to cadres who are not controversial or not too seriously controversial. On the surface, this is the safest method that will meet the least trouble and require the least effort. However, this may result in stifling and limiting many good cadres with both political integrity and work ability who dare to blaze new trails and who are resolved to carry out reforms and innovations. On the other hand, some mediocre people who can accomplish nothing may rise to key leading positions at high levels and some opportunists with strong selfish motives, who are worldly-wise and play safe, may rise quickly. This will only cause losses to the state and the people and is inadvisable.

In order to give prominence to actual work performances, to assess a person's political quality and work ability, and to ensure that the "four requirements" are completely satisfied when training and selecting successors, we must respect the authority of the practice criterion. To judge whether a person can be made a successor, we should not just see how he expresses himself or merely give consideration to a leader's subjective impression and a leader's personal relations with him; instead, we should mainly see his actual work performances and achievements. We should boldly bring young cadres into the main battlefield of economic construction, reform and opening, and national defense construction and allow them to increase knowledge, accumulate experience, temper their will power, and enhance their ability in practice. On the basis of this, qualified people who really adhere to Marxism can be boldly promoted to the leading posts. We should show a good-will attitude toward cadres who have made some errors in the course of blazing new trails or in their routine work and warmly help them understand and correct their shortcomings and mistakes. We cannot completely negate their achievements and strong points only because they have shortcomings or have committed some mistakes. The growth of any competent cadre certainly undergoes a process of development, in which he can make continuous progress through being repeatedly tempered in practice. Therefore, when assessing and

training cadres, we should objectively and comprehensively observe them from a viewpoint of development and should not judge a person by a single act or a short period of his life. As long as we consistently act in this way, we can certainly bring up more qualified successors who dedicate themselves to the cause of reform, opening, and socialist modernization and who have the new mentality and have the characteristics of the times, thus guaranteeing the everlasting vigor in our cause of socialism with Chinese characteristics.

### III.

At present, the profound changes in the international situation, the rapid development of science and technology, and the quickening pace of our country's economic construction, reform, and opening have all raised higher requirements for the building of our cadre contingent. Under such circumstances, when training successors with Marxism and building the cadre contingent according to the "four requirements," we should pay special attention to enhancing their quality in the following aspects:

1. It is necessary to require cadres, through education, to earnestly study and master the basic Marxist theory and to adhere to and develop Marxism in practice. Marxism is a scientific world outlook and methodology. It is a science that will continuously develop in practice and is not rigid and invariable dogma. Therefore, we should have a scientific attitude and method to study and apply Marxism. Here, two points are most important: First, theory should be integrated with practice. We should study the books of Marxism but efforts should mainly be made to master the Marxist stand, viewpoints, and methodology rather than reciting the conclusions and special points on concrete issues. Our study should serve an explicit purpose and what we have learned should be applied to our practice. That is, efforts should be made to "effect combination." Theoretical study should be combined with the observation and analysis of the domestic and international situation, with the practical work in our own localities and departments, and combined with our effort to transform our world outlook in order to enhance our ability to apply the Marxist stand, viewpoints, and methodology to solving basic political, economic, social, and cultural issues in reality and to increase our sense of principle, systematic arrangement, prediction, and creativity in practical work. Second, it is necessary to be good at making explorations and innovations and to enrich and develop Marxism in practice. The vitality of Marxism lies in its continuous enrichment and development. Being courageous in making explorations and innovations is the most prominent characteristic and strong point of Marxists. Mao Zedong, Deng Xiaoping, and other revolutionaries of the older generation are great Marxists because they can and did scientifically apply the basic principles of Marxism to guide the practice of revolution and construction in our country. As successors to the cause of socialism, we should boldly dash ahead and try new things in practice and should advance Marxism while advancing the cause

of socialism initiated by the older generation. Without such a spirit and without the ability and quality in this regard, one may only maintain what has been achieved by one's predecessors and cannot make new creations. In this case, one will not be able to effectively maintain what has been achieved and cannot become a reliable successor to the cause of socialism.

2. It is necessary to educate cadres and help them deeply understand and master China's national conditions so that they raise their consciousness in firmly carrying out the party's basic line. Our party's basic experience is to link Marxism with China's specific conditions and to blaze our own trail in revolution and construction. Here, the key lies in deeply understanding our national conditions. This is the basic prerequisite for formulating correct policies and solving major practical issues. The successors we are training are going to take over the duties of implementing the party's basic line and building socialism with Chinese characteristics. They should not only deeply understand the general law that governs the development of human society but should also actually understand China's national conditions, and the conditions in their own localities and departments, and master the law that governs the development of their own localities and departments. Only thus can they really know why we must unswervingly take economic construction as the central task, adhere to the four cardinal principles, and persist in reform and opening for the next 100 years, thus increasing their consciousness and firmness in carrying out the party's basic line. We should note that at present, some young and middle-aged cadres are not quite clear about China's national conditions, or only have incomplete knowledge about the national conditions. This may make them susceptible to various erroneous deviations in considering and handling concrete affairs and even make it easy to divorce themselves from the masses and the realities. Therefore, a complete knowledge about our national conditions is necessary, rather than optional, for our successors. This is the indispensable basic quality that they should have. The knowledge about national conditions has substantial content and is also continuously developing and changing. Ours is a large country with a long history, vast territory, huge population, an uneven distribution of resources, and uneven economic development in various localities. The situation is very complicated. Therefore, to really acquire a scientific knowledge about the national conditions, we should not only be guided by the correct stand, viewpoints, and methodology, but should be ready to make painstaking efforts.

It is necessary to study history in earnest, including China's modern and contemporary history and our party's history. This is one of the methods of acquiring knowledge about the national conditions. "Studying history can help a person know more about the world and the truth." The present is the continuation and development of the past. With historical knowledge, we can more deeply understand the present. For example, through reviewing historical facts, we can deeply understand that today's China being led by the Communist

Party and taking the socialist road is not determined by the subjective desire of any single person or any single political party; instead, it is a necessity in history and is the choice made by all the people. We can also learn that both in the past and at present, a nation will be attacked and bullied if it is economically and technologically backward and may even lose its sovereignty and suffer national humiliation; and that without adhering to socialism, carrying out reform and opening up, and without developing the economy, we will merely take the road to ruin. Only after really understanding this can we have the sense of responsibility and urgency to seize the current opportune moment to speed up reform and opening and to boost economic construction.

Another method of mastering the national conditions is to bend down, go deep into the realities of life, and make investigations and studies. It is hard for one to really know about the actual national, local, and departmental situation if one only listens to reports and reads materials. At present, many things are being delayed or distorted by such a subjective and formalist work style that is not based on investigations and studies. Henceforth, when we train successors, we must maintain and carry forward the tradition of being as good at making investigations and studies as the older generation of revolutionaries were and must require them to master the Marxist methodology of conducting investigations and studies. That is, we should, through systematic rather than fragmentary, realistic rather than formalistic, thoroughgoing rather than superficial investigations and studies, find out the actual conditions of our country and the actual conditions of our own localities and departments, thus summing up the inherent rather than imaginary regularity, working out feasible and realistic measures, really applying the party's line, principles, and policies to our work in all fields, and creatively implementing them.

3. It is necessary to require cadres, through education, to make efforts to master new knowledge and continuously increase their scientific and general knowledge. Science and technology constitute the primary factor of productive forces and the key to the realization of the four modernization. Without new modern scientific and general knowledge, and without scientific organizational ability, one cannot become a qualified participant in and successor to the cause of socialist modernization.

"Production is today; science is tomorrow; and education is the day after tomorrow." The work of promoting science and technology does not achieve results as fast as the work of promoting production but it opens up the road for tomorrow's substantial production development. It will take an even longer period of time for the work of promoting education to achieve results but education can nurture a large number of professionally competent personnel for the future scientific and technological take-off and will add vigor and dynamism to production development. This shows how a benign cycle in line with the law governing the development of productive forces is formed: Education promotes the

development of science and technology; science and technology promotes production development; and the development of production supports education, science, and technology. On the contrary, even if production develops for the time being, it is still hard to sustain such development over a long time when science, technology, and education are neglected. In recent years, what worried many people was the fact that many of our young and middle-aged successors had not received sufficient scientific and technological training. In some localities, there was even a gap in the scientific research management personnel. We should consider this issue from a strategic point of view and change this state of affairs by improving education and training. Our modernization cause needs a large quantity of scientific and technological knowledge. In the contemporary world, new knowledge is emerging in an endless stream. This not only poses a challenge but also provides an opportunity. There is only one method of applying such a large quantity of scientific and general knowledge to our work for the cause of modernization and that is to study hard and earnestly and to apply what we have learned and to learn what we need in practice. Study is something like sailing against the current and we must forge ahead or we will be driven back. Therefore, we must not be self-satisfied and must not slacken our effort. Instead, we must continue to study and update our knowledge in order to keep pace with the times and meet the requirements of the modernization drive.

4. It is necessary to require cadres, through education, to firmly keep the sense of being public servants and serving the people wholeheartedly. At the rally to mark the 70th anniversary of the founding of the CPC, Comrade Jiang Zemin pointed out: "To be a successor to the cause of socialism, one does not aim at becoming an official and getting rich or seizing the power to obtain private gains; instead, one should maintain and carry forward the staunch spirit of the older generation in persistently carrying out the revolutionary struggle, serve the people wholeheartedly, be ready to be the first to bear hardships and last to enjoy comforts, and be ready to sacrifice all individual interests for the sake of the victory of socialism and for the interests of the people." Our party has been struggling for more than 70 years, with one stepping into the breach as another fell. In the periods of revolution and construction, our only purpose

is always to seek the people's emancipation and happiness. In the past, innumerable good party members and cadres sacrificed their lives in the bloody struggle. What did they try to gain? They only tried to make contributions to the people! Serving the people wholeheartedly is our party's fundamental principle and is the foundation for party building. However, in a previous period, a small number of party members and cadres forgot and went against this principle and did things harmful to the interests of the party and the people. Their behavior has left a very bad impression in the minds of the people and has seriously jeopardized the party's cause. This is intolerable. Such negative examples show that when our party is holding the ruling position, in the circumstances of reform, opening, and developing a commodity economy, in the struggle against peaceful evolution, we must not relax education in the party's fundamental principle at any moment. This is an issue to which we must attach great importance in the course of training successors with Marxism. It must be made very clear that a successor to the cause of socialism must firmly keep the sense of being public servants, must properly hold power and use power for the people, and must work honestly and faithfully for the benefit of the people. They must maintain close ties with the masses and share weal and woe with the people. They must have the spirit of "being the first to bear hardships and being the last to enjoy comforts." They must work hard, seek no personal fame or benefit, and never stop struggling till the end of their lives. They must abide by law and discipline and remain incorrupt, honest, upright, and unbending in the struggle against various corrupt phenomena. They should stand the test of holding power, of reform, opening, and economic development, and the test of the struggle against peaceful evolution.

The cause of building socialism with Chinese characteristics needs a large number of qualified successors and also provides broad room for the growth of qualified successors. Through down-to-earth work in training and fostering successors according to the party's "four requirements" for building the cadre contingent, a large number of qualified successors faithful to Marxism and adhering to the party's basic line, keep an image of champions of reform and opening and, having achieved outstanding results in their work, will emerge and mature more quickly.

## NATIONAL AFFAIRS, POLICY

Better Management of State-Owned Concerns  
Targeted

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[Article by Guo Zhenying (6753 2182 5391): "Basic Understanding of the Transformation of the Enterprise Operating Mechanism"]

[Text] Increasing the vitality of state-owned large- and medium-sized enterprises requires comprehensive measures that enable enterprises to move ahead step by step toward independent management, taking responsibility for their own profits and losses, and taking responsibility for their own development and their own self-limitation. This point is generally appreciated by people in all ways of life, but the problem is how to turn the goal into reality. Right now the main task is further implementation of the already promulgated "Enterprise Law," and the 20 articles for improving enterprise vitality that were decided on at the Central Work Conference in September 1991. The "Enterprise Law" is the most important basic law underlying enterprise rules and regulations throughout the country. It is the basic law for the protection of enterprises' legal rights and interests, for the regularization of enterprises' behavior, and for the standardization of government management functions at all levels. It is also a powerful weapon for supporting the legal rights of enterprises. In the more than three years since its promulgation, the "Enterprise Law" has been universally well received. It has played a major role in expanding enterprises' decision making authority, and in transforming enterprises' operating mechanisms. It has established the distinctively Chinese enterprise system of the present stage that makes it possible to put management work in China's enterprises on a legal footing. Nevertheless, results have fallen short of the ideal. The 20 articles were proposed in the spirit of the "Enterprise Law" and on the basis of realities. The 20 articles have been implemented rather well, and have already produced some results. Nevertheless, implementation has been uneven, the main problems being as follows: First, some enterprises still lack sufficient confidence. They feel that higher level departments act too slowly, and that policies are difficult to implement. Second, they exceed national regulations, widening the scope of tax reductions and the granting of concessions. Third, some jurisdictions put all the emphasis on giving enterprises infusions of loans and investments, neglecting to stimulate the transformation of their mechanisms. Fourth, some jurisdictions are interested only in drawing on the experiences with operating mechanisms in the three kinds of partially or wholly foreign-owned enterprises, ignoring the study of experiences in advanced state-owned enterprises. This muddles people's thinking. These problems must be straightened out. Problems in six regards having to do with the implementation of

policy measures for good operation of enterprises require further study and discussion.

## The Problem of Distinguishing the Two Rights

How to delineate state ownership rights and how to define enterprise assets ownership rights are major problems in transforming the enterprise operating mechanism, in preventing erosion of state assets, and in protecting and increasing the value of state assets. The assets of state-owned enterprises belong to the whole people. The state exercises ownership on behalf of the whole people and empowers enterprises to administer and manage them. Enterprises as legal entities may use them in the discharge of civil responsibilities. Here enterprise assets is used to mean all the fixed assets, movable assets, and special assets that an enterprise holds for use. They are created through inputs of capital and the portion of returns that enterprises retain. They are total and not partial. In the final analysis, state ownership means the ultimate right to dispose of state-owned assets.

A prominent problem at the present time is the relatively titular nature of state-ownership. The exercise of state equity rights in an enterprise is difficult to assure. Enterprises' attention to the payment of profits and taxes upward to the state and payment of members' and workers' wages downward, which leaves a void in the middle (improving the value of assets and developing the enterprise), shows a weakening of state equity rights within enterprises. If this continues, the basis for public ownership is bound to suffer impairment. Therefore, study of how to ensure state equity rights is a major topic at the present time that requires, in turn, a clarification of the state assets ownership rights representation issue. In reality, to a certain extent state-owned assets in China today are under separate control of different organizations, such as the central government, provinces, autonomous regions, counties, and different government departments and enterprises, all of which control a portion of state-owned assets. On this matter, there are two different views. One view holds that the unit that controls state-owned assets is the representative of ownership rights; it must centrally control the assets of state-owned enterprises. The other view holds that given the hundreds of thousands of state-owned enterprises in the country today having billions upon billions of yuan worth of assets, no single unit can control them. Furthermore, in accordance with the spirit of a need for separation between state-owned assets control functions and operating functions, no single unit should be the representative of ownership rights all by itself. On this issue, more comrades in working units and economic theoreticians incline toward the latter view. They feel that so long as state-ownership rights are maintained, departments that the State Council has mandated in charge of enterprises, business corporations of a national character, and other mandated organs are to exercise ownership control functions in accordance with subordination relationships. This is more in keeping with the present state and the realities of enterprises in China; it helps stir

the zeal of all quarters; and it helps clarify responsibilities, thereby changing the current situation in which no one is responsible for state-owned assets. In order to define the relationship between assets control units and departments that represent enterprise assets ownership rights, it is also necessary to define the functions of assets control units, i.e., to exercise investigative and supervisory functions, while simultaneously defining the rights and duties of the ownership rights representatives. This ensures that ownerships rights will be exercised. It also helps full exercise of the state's ownership rights when exercise of ownership rights might otherwise be curtailed, and it helps enterprises fend off infringements and interference with enterprise operating rights.

Representatives of ownership rights have authority in seven regards as follows: 1) To draw up standards for protecting the value and increasing the value of state-owned assets as well as drawing up performance standards. They are also responsible for supervising and checking to ensure that all state-owned assets are in good conditions and that assets used in business increase in value. 2) To determine the method and percentage of distribution of returns from assets between the state and the enterprise. 3) To examine and approve enterprise medium- and long-range development plans and annual advance budgets. 4) To examine the scrapping, reduction, and cancellation of enterprise assets, and to inventory and take over the assets of voided enterprises; to decide on closing or halting of production of an enterprise, and approval according to law of enterprise bankruptcy. 5) To decide on plant manager (or director) appointments, dismissals, rewards, and punishments in accordance with legal regulations and procedures. 6) To draw up all management systems for state-owned assets and supervise their enforcement.

The duties of agencies or organs representing enterprise ownership rights are four as follows: 1) to ensure that state-owned assets maintain their value or increase in value, and to ensure a return on state capital; 2) to improve returns on enterprise investment and operations, and guarantee rights and interests from the reinvestment of earnings on national funds; 3) to assist enterprises actively in raising funds and finance capital, constantly improving enterprises development capabilities and self-renewal and self-transformation capabilities; and 4) ensure and protect enterprises' legal execution of operating autonomy, not interfering in enterprises' normal production and business activities.

How can enterprises' operating autonomy be guaranteed? What is included in enterprises' operating autonomy? These are questions about which controversy has raged for a long time. Once the *Enterprise Law* began to be implemented in August 1988, there was a clear-cut answer. Practice shows that the 13 autonomous operating rights of enterprises that the *Enterprise Law* provides are correct and truly feasible. Their conscientious implementation holds great hope. The main reasons for their incomplete implementation are three: The first is ideological perception. People's understanding is not

unanimous on the main issues concerned, conflicts in execution resulting. The second reason is the policy climate. Some macroeconomic and microeconomic policies have not yet been dovetailed and integrated with the *Enterprise Law*. Some of them even clash with it, and this is bound to impede execution. The third reason is the law itself, some provisions of which are not worded very scientifically, and some of which are unclear or unworkable.

Survey reveals that mostly five of the 13 rights have not been implemented, namely readjustment of command style plan rights not secured by materials, foreign trade rights, and fixed assets leasing and transfer rights, labor use rights, and refusal of any form of assessments. These unimplemented rights are indispensable internal requirements for a change in the enterprise operating mechanism. Unless these problems are solved, enterprises will have no way to build internal motivation for orienting toward the market. Today when the external conditions for enterprises are steadily changing for the better, a conscientious internal shift of the work focus is needed, completely and conscientiously implementing the 13 independent rights of enterprises, particularly those articles that have not yet been implemented or only partially implemented. These 13 articles have a direct bearing on the transformation of the enterprise operating mechanism. Unless the 13 articles are implemented, fundamental solution to the problem of enterprise vitality will remain impossible. Emphasis on the need to transform the operating mechanism of state-owned enterprises means that enterprises must establish operating mechanisms under guidance of state plan that are in keeping with the requirements of a socialist planned commodity economy, organize their production and business activities on the basis on market demand and economic returns for the survival of the fittest in order to spur a readjustment of the product mix and the enterprise organizational structure that improves the overall quality and returns of the national economy. During the past several years, an overwhelming majority of state-owned enterprises have instituted the contract management responsibility system. This has played a positive role in arousing the zeal of both enterprises and their staff members and workers, and in increasing enterprises' vitality. Nevertheless, it must be realized that the contract management responsibility system has not fundamentally solved the problems of enterprises taking responsibility for their own profits and losses, and for exercising restraint. Only by transforming their operating mechanism and entering the market can state-owned enterprises truly be able to intertwine the plan economy with market regulation and make substantive progress in establishing a new socialist planned commodity economy system.

The distribution problem. The state is working to control increases in the total wage bill, no longer stipulating that enterprises raise wages across the board, but rather that enterprises independently decide the form of internal wage distributions, and set up a wage risk fund putting

money into it in fat years for pay outs in lean years. Enterprises that are able to do so must gradually institute a distribution system that is based mostly on job position and skills, widen the wage spread, and favor staff members, workers, and technical personnel on the front line of production who do arduous, dirty, tiring, or dangerous work, or work that requires complex skills. They must genuinely link labor compensation to the enterprise's economic returns and the labor contribution of individual staff members and workers. They must perfect methods for linking compensation to enterprise work efficiency, do a better job of making lateral comparisons among enterprises in the same industry, and institute across-the-board linking of standards. They must also set up a rigorous examination and approval and settlement system to solve the problem of indexing distributions to rises, but not to drops, in returns, and responsibility for profits but not for losses.

**Cadre problems.** Change enterprise managerial personnel in accordance with organizational cadre management methods, getting rid of the distinction between cadres and workers, selecting managerial personnel on the principles of openness, competition, and choice.

**Labor use problems.** Extend and perfect the labor contract system for management of all personnel in enterprises, doing a better job of building an employment services system. Optimize labor groups in enterprises, not only using various means to widen employment avenues for surplus personnel, mostly by digesting them internally, but also instituting an internal employment wait list. Enterprises should have the authority to hire and put to work a certain number of personnel as needs require, as well as to discharge staff members and workers in accordance with contract provisions. Staff members and workers should have the right to resign their position in accordance with contract provisions.

**The social security problem.** Gradually establish a multi-level old age insurance system made up of basic national insurance, supplementary enterprise insurance, and individual savings type insurance in combination. The degree of socialization of old age insurance should be raised and the coverage of old age insurance broadened. The scope of unemployment insurance should be appropriately expanded, unemployment insurance for all staff members and workers in state-owned enterprises, and for staff members and workers in enterprises under all other kinds of ownership set up and perfected.

#### **The Separation of Government Administration and Enterprise Management Problem**

People's opinions differ very greatly about how to separate government administration and enterprise management, and about just how to change government functions. The points requiring clarification here are the separation of the state's economic management functions from ordinary administrative control functions. If the two are jumbled together, they are bound to obstruct each other. Unless the economy is managed well,

everyday social problems will not be handled well. Management of state equity rights must be separated from day-to-day management of the economy in economic management functions. State equity management applies mostly to state-owned enterprises; day-to-day management of the economy applies to all the various economic components of society. Management of industries must be separated from management of units in charge of enterprises, management of industries increased and direct management of enterprises under jurisdiction of units in charge reduced over a period of time. The management of state equity must be separated from management of enterprise's day-to-day operations; government units must not interfere in the management of enterprises' day-to-day operations. The separation and change of government functions, and direct and indirect management of enterprises by government agencies concerned has to be spelled out through legal procedures, as well as through laws, rules, and regulations. All government agencies must administer according to law and discharge their authority in managing enterprises according to law; they may not simply rely on an understanding of their agency's functions gained through experience for the years to manage enterprises. The key to changing government management functions and methods lies in changing from direct management of enterprises' production and business activities to fostering markets and managing markets for the gradual building of a macroeconomic management system that employs indirect regulation and control. Government's management of the economy should be mainly in the following regards: Drafting of economic and social development strategies, plans, and industrial policies, controlling overall balance, and planning and adjusting the industrial pattern; applying economic levers in the form of interest rates, tax rates, and foreign exchange rates, as well as price policy to regulate, control, and guide business activity; collate economic information, conduct technical training, provide technical services, and provide information and advice for decisionmaking and business activity of the enterprises; readjust enterprise organizational structure as industrial policy and the economies of scale require, carrying out a policy of the survival of the fittest enterprises, and practicing a rational allocation of resources. Changing governmental function in managing the economy has to begin with the units in charge of enterprises. Units in charge of enterprises must discard the notion that enterprises are an appendage of a government agency, and they must shed the old work methods of examination, evaluation and comparison, and inspection preliminary to acceptance, focusing instead on doing a good job of planning, coordinating, providing services, and supervising industries, and halting unnecessary administrative interference. Coordination must be improved between units in charge of enterprises and the principal agency, and between one principal agency and another, shaping a combined policy force that helps enterprises change their operating mechanism and moves enterprises in the direction of the market. It was in light of this principle that the Central

Work Committee proposed 20 different ideas in September 1991 for improving external conditions for enterprises. These ideas may be generally divided into three types, largely as follows:

First is to unleash enterprises. Further reform of the planning system is needed following the principle of combining a plan economy with market regulation. The scope of command-style plans must be gradually shortened and the purview of guidance-style plans and market regulation widened as economic development requires. The current amount of command-style production and commodity circulation planning must be looked at. So long as it is possible to guarantee the supply of important means of production that are indispensable to the state, command-style plans should be appropriately curtailed step by step. At the same time, close attention must be given to methods for improving guidance style planning, selecting a number of products to which the use of measures such as giving priority to the state in ordering goods, contract procurement, and dovetailing output and demand can be applied. Methods for evaluating industrial enterprise production plans must be reformed, a comprehensive system for evaluating norms established in which returns are the main concern, the present practice changed whereby government agencies and prefectures emphasize speed of growth of output value when making evaluations. Efforts must be made to foster the market system, developing various forms of market organization to promote the smooth flow of goods. More must be done to develop consumer goods markets and production goods markets, and a good job must be done in running futures trading market pilot projects. Healthy development of capital markets, technology markets, information markets, real estate markets and labor service markets must be promoted. Continued efforts must be made to eradicate local blockading of markets against one another and the cutting up of markets, efforts made to consolidate and develop a unified market nationwide. More must be done to build a body of market rules and regulations, to improve trading regulations, to oppose improper competition, to advance the standardization of all kinds of markets, and to maintain a fine commodity flow order and economic order. Firm attention must be given to certain enterprises exercising independent authority in foreign trade. This will enable the rapid technological transformation of large and medium size state-owned enterprises, the active development of new products, improvement of product quality, and increase in ability to compete in international markets. What is needed is maturation of a number of measures, ratification of a number of measures, and active implementation.

Second is lightening of enterprise burdens. A further modest lowering of interest rates would go far in lightening enterprise burdens. Interest rates today have largely returned to the pre-1988 level following the three major rises of 1990 and 1991. They might be appropriately lowered in 1992 as the economy develops and currency is removed from circulation in order to reduce

enterprises' interest burdens. Lowering of the business enterprise income tax rate might include: A state decision to reduce the income tax from 55 percent to 33 percent beginning in 1992 would be generally in line with other economic components. This would provide powerful protection for large and medium size state-owned enterprises. In view of the state's limited tolerance for a reduction in revenues, lowering of the income tax rate would have to be done in accordance with industrial policy and technological transformation, and together with greater separation of profits and taxes as well as pilot projects for after-tax debt repayment reform, and applied to enterprises to be completed over a three year period. Attention must be given to the clearing up of "triangular debt." Much has been accomplished since 1990 in clearing up "triangular debt," but the problem of clearing it up only to incur more debt has yet to be solved. "Triangular debt" has become a serious obstacle to the normal operation of the economy, and the state has decided to solve this problem within three years. The problem of cleaning up the "three arbitrariness" [arbitrary fee collections, arbitrary fines, and arbitrary raising of capital] and the building of clean government, rectifying unhealthy tendencies in industrial concerns, and streamlining government organizations should be carried out together. Examination and approval authority for the collection of fees, the payment of fines, and the raising of capital should be centralized in the central government, the provincial government, and municipal governments.

Third is reserve strength for enterprise development. Examination and approval authority for capital construction and technological transformation should be divided up in terms of state industrial policy, different industrial areas, and economic scale for the gradual building of a joint central government, local government, and enterprise investment system. Increased investment in the technological transformation of enterprises should be based on the state of the national economy as well as the status of the national foreign exchange balance, a certain amount of money being obligated each year for use in technological transformation. Effective actions should be taken to control enterprises use of their own funds in payments of a wage nature as a means of encouraging the use of more of their own funds for technological transformation. Depreciation rates should be increased somewhat. Beginning in 1991, large and medium size enterprises should increase depreciation by 3 billion yuan annually for a 15 billion increase in five years to be earmarked for key large- and medium-sized enterprises where major technological transformation is needed. By way of supporting the technological transformation of large- and medium-sized enterprises, in September 1991 the State Council decided to abolish the collection of "two moneys" [liang jin 0357 6855] from the depreciation fund. This will decrease fiscal revenue by 6 billion yuan. This cannot be done in a single year, so preparations are being made to apply it to enterprises over a three year period in accordance with state industrial policy. The new products development fund must be increased, 1 percent

continuing to be withheld from sales income to defray expenses for the development of new products, the new portion to be exempted from payment of the "two moneys."

In addition, the continuation of supplementary circulating capital, the continuation of "double guarantees" for large- and medium-sized state-owned enterprises, and the founding of more large conglomerates is recommended. These actions will help improve the external climate for enterprises.

#### Enterprise Internal Leadership System Problems

The key to a more robust enterprise leadership system lies primarily in correct handling of the relationship among the plant manager, the party organization, and the workers congress in enterprises. The separate roles of the plant manager, the party organization, and the workers congress must be as stated in the *Recommendations* that the Seventh Plenary Session of the 13th Party Central Committee passed. This means a greater role as a political nucleus for the party organization, continuation and perfection of the plant manager responsibility system, and wholehearted reliance on the working class. In the relationship among the three, the party-enterprise administration relationship is the key one. A good relationship between the party and the enterprise administration requires both a strong party system and a strong party spirit, but it is the system that is most fundamental. Ways of solving problems in the party-administration relationship system are: first, through administrative legislation, drafting detailed regulations and attendant auxiliary laws and regulations for implementation of the *Enterprise Law*, that further spell out the responsibilities and authority of the plant manager in an enterprise—particularly rights regarding enterprise personnel management and rights regarding internal distributions. Second is through "legislation" within the party, revising *Communist Party of China Basic Level Organization Regulations for Enterprises* for further clarification of how the party organization is to play its key political role. By building a system that is clear-cut and concrete while simultaneously intensifying Party education, relations between the party and administration within enterprises can certainly be better handled.

Definition of the authority of the plant manager (or director) is a key matter in resolving the relationship between the party and the plant administration. It has a bearing on the unified coordinated production and business operation of the entire enterprise. In accordance with the spirit of the *Enterprise Law's* provisions, the plant manager is the enterprise's legally constituted representative, and he is the final decision-making authority in the production command system responsible for leading all of the enterprises' production, administration, and management work. Specifically, the plant manager (or director) has rights in the following several regards: 1) deciding or requesting examination and approval according to law and regulations for all

enterprise plans; 2) decisions about setting up the enterprise's administrative organs; 3) proposing to government departments appointments and dismissals, or hirings and dismissals of leading administrative cadres at the deputy plant manager level; 4) appointment and dismissal of middle level leading administrative cadres in the enterprise; 5) making wage adjustment proposals, bonus distribution proposals, and proposal on major rules and regulations system, requesting examination and approval from the workers congress. He is to propose plans for the use of welfare funds, and make other recommendations on major matters affecting the welfare of staff members and workers, requesting the staff members and workers congress to discuss them and render a decision; and he is to issue awards and punishments to staff members and workers according to law, as well as propose to the government agency in charge awards and punishments for leading administrative cadres at the deputy level in the plant.

One problem exists in the plant manager responsibility system today and that is there is no method whereby the plant manager can carry out collective decisions while exercising his role as an individual. In order to solve this collective decision making problem, some enterprises have adopted a plant manager responsibility system that is under leadership of a plant committee or board of directors. This is a positive solution to the problem. We must address the new problems and the new situations that have arisen in pursuit of the plant manager responsibility system, conscientiously study them, and explore means of solving them for further perfection of the plant manager responsibility system. The *Enterprise Law* contains explicit provisions regarding this problem, most important of which are the following: One is that the plant manager must seek the support of staff members and workers in carrying out his duties, support the work of the staff members and workers congress, the trade union, and other mass organizations, and enforce the decisions of the staff members and workers congress according to law. Second, the enterprise is to set up a management committee or some other means for assisting the plant manager in making decisions about major enterprise questions; regulations are also to be made regarding major problems. The management committee is to be composed of persons in charge of all aspects of the work of the enterprise and the staff members and workers congress, the plant manager serving as director of the management committee. This means that major issues in the enterprise will be decided collectively and not by a single person alone. This will both help prevent policy mistakes, and also solve problems involving responsibility for the division of labor, thereby enabling the enterprise to coordinate actions under guidance of correct policies.

Party organizations in enterprises are to be in charge of ideology and politics in the enterprise, i.e., ensure and supervise enforcement of party and state plans and policies, support mass organizations in doing their work independently and responsibly, perform ideological and

political work conscientiously, discharge the party organization's role as a fighting force and the role of party members as vanguard models that guarantee institution of the plant manager responsibility system, and promote and move ahead with production and the completion of all tasks. State-owned enterprise must set up and perfect party work organs, and establish a clear-cut work responsibility system. The main tasks of the party organization in enterprises are as follows: 1) ensure and supervise the full implementation of all party and state plans and policies; 2) do a good job of building party ideology in the enterprise and organizing the building of an "improved work style"; 3) support the plant manager in realization of goals during his tenure and in centrally directing production and operations; 4) do a good job of staff member and worker ideological and political work; enhance the ideological and political leadership of mass organizations, and do good mass work; and 6) party organizations in enterprises must present views and make recommendations to the plant manager in accordance with the party cadre line and cadre policies about proposed selections for deputy plant manager positions, for economic and technical supervisory positions, and for middle level administrative cadres.

#### **The Problem of Enterprises Being Responsible for Their Own Profits and Losses**

Responsibility for profits and losses is both the key to the transformation of the operating mechanism and an important part of the invigoration of enterprises. Different perceptions of this problem exist today. Some comrades believe that in a commodity economy, responsibility for profits and losses from the operation of assets should be ultimately borne by the owner of the assets. They believe that since assets belong to the state, enterprises as operators should not bear responsibility for profits and losses. Other comrades believe that enterprise profits and losses today are too much subject to improper competition and limitations in the external environment; enterprises must not and cannot bear complete responsibility for profits and losses. These views make sense in some ways, but they do not go to the core of matters.

Making enterprises responsible for profits and losses must be done and can be done. Only by giving enterprises production and operating autonomy and the material rights and interests that go with it, as well as by subjecting them to market competition, can they be spurred to adjust production and operate flexibly on the basis of demand information for steady increase in their economic returns. The *Enterprise Law* explicitly provides that enterprises are responsible for operating and managing the assets for which the state has conferred complete authority, or in other words, most of the state's assets ownership rights have been turned over to enterprises. This is the basis for enterprises' responsibility for their own profits and losses. Furthermore, the law provides that enterprises are to bear civil responsibility for the assets that the state has entrusted to them for operation and management. This provides the material

support for responsibility for profits and losses. Therefore, enterprises bear responsibility for their own profits and losses; the plant manager bears direct administrative responsibility for profits and losses; and all staff members and workers bear economic responsibility for the enterprise's profits and losses. This links responsibility for the enterprise's profits and losses to the personal economic well-being of the staff members and workers, to the bonuses of the operators of the enterprise, and to the enterprise's survival and development, thereby fashioning an effective enterprise mechanism of responsibility for profits and losses. In the discharge of responsibility for the enterprise's own profits and losses, emphasis must be given to problems in the following four regards:

When the enterprise makes a profit, it must pay taxes, fees, and profits on the full amount to the state according to law; the enterprise's wage bill may be indexed to overall returns to float upward. When the enterprise's returns go down, the enterprise's total wage bill must be adjusted downward by the same indexed proportion.

Second, when an enterprise shows a loss, unless attributable to special circumstances, the losses are to be regarded as operating losses for which the enterprise bears responsibility. These losses are to be made up out of retained profits of the enterprise from surplus years; staff member and worker wages may not be raised; and no bonuses may be issued to cadres. Should the enterprise be unable to convert the loss into a profit within a fixed period of time, the government agency in charge must eliminate it through a takeover or transfer of possession to another enterprise, an auction, or bankruptcy.

Third, enterprises that use assets without withholding any or sufficient depreciation funds, that post unjustified costs in accounts, that seize state-owned assets, or that attempt to obtain unwarranted benefits for staff members and workers must be directed to refund the amount of the excess distributions or excess obligation of unwarranted benefits, and administrative responsibility must be fixed on the enterprise's leading cadres and the persons primarily responsible.

Fourth is the establishment of an enterprise restriction mechanism, enterprises being required to set up a mechanism whereby rewards and punishments are issued only following audit. An assets profit and loss accounting mechanism must be established, as well as a mechanism whereby the enterprise can halt production for restructuring. Enterprises should have a mechanism for conducting regular check-ups of fixed assets, and for evaluating assets. Favoritism toward individuals in making distributions must be overcome, and the protection and increase in value of state-owned assets assured.

#### **Problems in Coordinating Policies and the Law**

In the 13 years since the beginning of reform and opening to the outside world, very great advances have been made in economic legislation in China. During the

period 1979-1990, more than 100 different laws and regulations having a direct bearing on business concerns were ratified by the NPC and promulgated by the State Council. Some of these laws and regulations have not been enforced very well, mostly because they are unworkable, or no detailed regulations for their implementation were prescribed promptly. The *Enterprise Law* is in this latter category. Now the State Council has charged the units concerned with the task of beginning to draw up detailed implementation regulations, using legal language to define clearly the distinction between ownership and operating rights to standardize the relationship among the state, enterprises, and individuals. This is the central issue in the drafting of specific regulations. The drafting of specific regulations requires work in three main regards:

The first kind of work is improvement of places in the *Enterprise Law* where provisions are not very scientific. This improvement requires a dovetailing of the specific regulations with the *Enterprise Law*.

The second kind of work is to make the specific regulations more specific about some articles in the *Enterprise Law*.

The third kind of work is to do a good job of coordinating references in the *Enterprise Law* to abiding by laws and regulations with the laws and regulations in the 20 articles that the State Council prescribed. This is an extremely strenuous job that cannot be readily encompassed as a totality, but that can be divided into three situations for handling as follows: First, laws and regulations are already somewhat in place for some provisions, so no revisions are needed; the problem lies in continued application. Second, although laws and regulations exist for some provisions, they no longer meet current circumstances. These must be prioritized for revision and augmentation over time. Third is regulations for which there is an urgent current need, principal of which are the following: laws protecting state-owned assets; State Council regulations pertaining for the foreign trade authority of enterprises; State Council regulations pertaining to enterprise leasing or transfer for compensation to others of fixed assets; laws and State Council regulations having to do with plant manager decisions about or requests for approval of various enterprise plans; and State Council regulations on examination and approval of enterprise technological transformation projects. Laws and regulations to be drafted one after another include: laws and State Council regulations on enterprise formation of partnerships, investment in, or holding of shares in other units; laws and State Council regulations on how the government or government agencies in charge and pertinent government departments are to manage and supervise enterprises; and State Council regulations on the leadership system in joint enterprises, large complexes, conglomerates, and share system enterprises.

The 20 articles also pose a problem of the coordination of policies with regulations. Twelve of the 20 articles are

about the creation of fine external conditions for enterprises. Most of these 12 require investigation and study before drafting attendant policies so that they can be implemented in enterprises. One of the reasons why plans and policies failed to be implemented in the past was that they were not made concrete. We must take in the lessons of the past, promptly doing the job of making plans and policies more concrete.

#### The Policy and Law Enforcement and Supervision Problem

In connection with the invigoration of enterprises, there are problems in two regards that are in urgent need of solution today. The first is solution to the enterprise legal responsibility problem, and the second is solution to the problem of the legal responsibilities of government units in charge and surrogate units for enterprise assets. These two matters are mutually conditional and mutually restrictive. If any part fails to handle matters in accordance with legal responsibilities, it may damage the normal operation of the enterprise and damage enterprise vitality. In the spirit of the *Enterprise Law*, the following several points must be clarified about the legal responsibilities of enterprises:

- 1) When an enterprise produces and sells imitation, fake, and shoddy products that cause damage to the property and person of customers and consumers, the enterprise must bear responsibility for paying compensation; when a crime is committed, the persons found directly responsible are to be held criminally responsible according to law.
- 2) Should an enterprise evade, cheat on, or refuse to pay taxes, or seriously violate finance and banking laws and regulations, thereby causing a loss of state assets and serious damage to state property, offenders found directly responsible are to be held criminally responsible according to law.
- 3) Enterprises are to bear legal responsibility for refusing to enforce state command-style plan goods ordering contracts when the provisions of the law provide no just reason.
- 4) When an enterprise defaults on payment of a debt without cause or reason, at the request of the creditor, a bank may directly dispose of the proceeds in an account or freeze an account to force the enterprise to settle a debt owing. Industrial and commercial administrative control agencies may fix responsibility on the enterprise for contract violation.

Government agencies in charge and representatives of enterprise property rights must strive to behave professionally and change their functions to deal with enterprise problems according to law and regulations, guarding against unwarranted interference in enterprise production and business operations that causes economic losses for the enterprise. At the present time, special attention must be given to handling and guarding against problems arising in the following several regards:

- 1) Faulty investment decisions or intrusion into enterprises investment activities leading to a worsening of the enterprise's business.
- 2) Appointing and dismissing plant managers (or directors) without regard for requirements

and procedures, thereby damaging the enterprise normal production and business activities and causing a decline in economic returns. 3) Arbitrary deprivation or indiscriminate transfer of money and property belonging to an enterprises, thereby seriously impairing production and business activities. 4) Forcing an enterprise to sign a contract to produce products that are not readily marketable with the result that the products accumulate in inventory impairing the enterprise's economic returns. 5) Halting or forcing an enterprise to revamp its organizational structure through means not in accordance with legally prescribed procedures and requirements, thereby causing losses for state and enterprise property. 6) Use of blockading, improper competition and other means to protect local and department interests and seriously interferes with the normal production and business activities of an enterprise. 7) dereliction of duty, resort to deception and other acts that create losses of state property and to enterprises. 8) Disrupting enterprise procedures so that production and business cannot be conducted are to be administratively punished or those responsible held criminally liable.

**Assessing Current Economic Boom, Perils**  
93CE0055A Hong Kong *CHING CHI TAO PAO*  
[ECONOMIC REPORTER] in Chinese  
No 37-38, 28 Sep 92 pp 19-21

[Article by Ch'en Ming (7115 6900): "On China's Powerful Economic Growth Momentum"]

[Text] While Western economies are now still recovering very feebly, with those of the United States, Japan, and even the EC all being equally hard to read, China, this developing country with the world's largest population, is maintaining a powerful national economic growth momentum, with GNP growth rising into double digits. In particular, its fixed assets investment momentum is even more powerful, reaching 200.2 billion yuan (RMB, and similarly hereinafter) for the first eight months of 1992, up 36.4 percent from the same period in 1991. But such a rapid state of growth is truly both heartening and worrisome.

The heartening part is that the speeches of China's leader Deng Xiaoping on his southern tour this spring have added a booster to China's economic rocket growth, sharply stimulating the Chinese people, particularly local officials, to a new fervor of reform and opening up that is bringing China's overall economic operations from the slow lane of the last three years of improvement and rectification into the fast lane of rapid growth. This is undoubtedly in keeping with the wishes of the people, as well as conforming to current world economic growth laws.

At the 27th Session of the Seventh NPC Standing Committee in Beijing on 1 September, State Council Vice Premier and State Planning Commission Minister in Charge Zou Jiahua spoke with fervor and assurance as follows: "We are freeing up our thinking, deepening

reform, and opening up further to inject new vigor into China's rapid economic growth. Our GNP for the first half of 1992 reached 1.0042 trillion yuan, up 12 percent. Over the same period in 1991, including growth of 6.7 percent for primary industries, 17.5 percent for secondary industries, and 6.7 percent for tertiary industries. Preliminary estimates are that our 1992 GNP will be up 9-10 percent over 1991's, far exceeding the planned goals that we set at the beginning of the year."

Such figures are obviously quite optimistic, not only being a clear contrast with the previous years of negative economic growth after tightening, but also the most bracing news of economic growth in 1992 among all countries throughout the world. The experts project 1992's world economic growth rate at about 1.5-2 percent.

Agricultural sector projections are that China's gross summer grain output will reach 103.2 billion kg, up 4.8 billion kg over 1991's, for another record harvest. China's 1992 grain output is expected to meet planned targets, with better harvests also of oil-bearing and sugar crops. Livestock-raising and fishery are growing steadily, and township enterprises are continuing to maintain a high growth rate.

State Statistical Bureau figures show that industrial production is maintaining a very high growth rate in 1992, with China's GVIO for the first half of 1992 up 18.2 percent over the same period in 1991 to 1.3314 trillion yuan. Economic growth is high in all industrial categories, being up 12.7 percent for state-owned industries, 25.2 percent for collective industries, 37.9 percent for township industries, and 43.8 percent for the three kinds of foreign trade enterprises and the individual economy. Economists predict that 1992's industrial growth rate will top 18 percent and very likely approach 20 percent.

Industrialists have analyzed the following key factors that are driving China's rapid industrial growth rate:

—As all areas and industries are rushing to get into the fast lane of economic growth in 1992, fixed assets investments are growing faster, domestic markets are expanding, and investment demand is growing particularly fast, which are providing powerful stimuli to investment-type manufactured goods.

In the first seven months of 1992, China's heavy industry grew 21 percent, or 4.1 points more than the 16.9 percent for light industry, with output up 18.7 percent for rolled steel and over 20 percent for goods, such as cement, alternating electric motors, industrial boilers, metal-cutting machine tools, and motor vehicles, creating a growth rate of 18.9 percent for large- and medium-sized enterprises that manufacture mostly heavy industrial goods.

—Since Deng Xiaoping's southern tour, eastern and southeastern coastal China, as well as other regions, have all been seizing the time to bring their advantages

into as full play as possible, and striving to push their economic growth up to new heights as quickly as possible, in an attempt to catch up to Asia's four little dragons within two decades, which is maintaining a rapid growth momentum in 1992. Industrial growth rates topped 20 percent for the first seven months of 1992 in coastal provinces, such as Guangdong, Jiangsu, Zhejiang, Shandong, and Hainan, as well as being obviously higher in certain old industrial bases that had had lower growth rates for some years, such as 19.3 percent for Shanghai and 13.3 percent for Liaoning;

—The steady increase in power and raw materials production, as well as the previous two years of more structural adjustment of inventories and a moderate increase in imports of resources that were in short domestic supply, have provided the basic conditions for rapid industrial growth.

—The role of the externally-oriented economy has strengthened, and foreign markets are being expanded steadily. The experts estimate that export growth in the first seven months of 1992 has raised China's industrial growth rate about 2-3 percentage points. The rapid growth of production has better dovetailed manufactured goods production and marketing, and improved economic efficiency somewhat. A composite index of industrial economic efficiency, made up of six indicators of industrial economic efficiency, was 86.27 percent for the first seven months of 1992, up 4.64 points over the same period in 1991.

China's rapid economic growth in 1992 is clearly investment-induced, with the overall fixed assets investment for the first half of 1992 up 28.5 percent over the same period in 1991 to 218.9 billion yuan. State-owned fixed assets investment for the first eight months of 1992 reached 200.2 billion yuan, up 36.4 percent over the same period in 1991, including growth of 30.6 percent for capital construction and 41.8 percent for replacement and upgrading. Development of the real estate industry has brought a rapid increase in commercial housing investment, which was up as much as 74.6 percent for August.

But such feverish investment activity has aroused serious concerns and worries among some economists that the current economic boom might lead to overheating. Zhai Yinglong [5049 2019 7893] of the State Statistical Bureau made the following comments: While the current rapid growth may be rational in the short term, it is likely to lead to imbalances over the long term. Moreover, rapid growth that is rational in the short term is intrinsically bound to break down the traditional balance, so that the alternate or even simultaneous appearance of short-term rapid growth with the traditional balance will constitute a threat to our current good macroeconomic climate.

The State Council Development Research Center's Ma Jiantang [7456 1696 1016] points out without mincing

words that "China's industrial production is far from being as optimistic as some may imagine, giving us even less reason to adopt a more expansionary economic policy." He obviously believes that China's economy is already hot enough.

State Planning Commission Minister in Charge Zou Jiahua gave the following explanation: "The major reasons for our current large investment growth are as follows: 1) The previous three years of improvement and rectification mean that part of our current investment growth is of a recovery type. 2) Construction is beginning on a number of key construction projects in the Eighth Five-Year Plan, with the State Council having approved 101 new large- and medium-sized project starts in 1992, for a planned 1992 investment of 12.9 billion yuan. 3) Our enterprise self-upgrading capability is somewhat stronger, with more planned technological upgrading loans, and more rapid growth of commercial housing and service facility construction. 4) Our increased opening up to the outside world is enabling us to use more foreign investment for development. Sharp increases in direct foreign investments are bringing related domestic investment growth. 5) As our consumer goods markets are now quite stable, our money markets are developing rapidly and our stock and bond issues are increasing, so that individual income surpluses have more investment channels, which is providing new funding sources for certain construction projects."

State Statistical Bureau statistics show that China's retail commodity turnover for the first 8 months of 1992 was 694.4 billion yuan, up 14.3 percent over the same period in 1991.

China's capital goods markets are becoming steadily brisker. The commodities system had purchases of major capital goods in the first eight months of 1992 worth 258.4 billion yuan, up 44.4 percent over the same period in 1991, and sales of 283.6 billion yuan, up 44 percent.

While China has taken many price reform steps in 1992, supply and demand relations have remained essentially balanced, so that there are abundant commodity reserves, individual consumption is normal, market prices have remained essentially stable, and there has been no recurrence of the nationwide panic buying and 18.5 percent runaway inflation of 1988.

Retail prices for the first half of 1992 were up 4.9 percent over the same period in 1991. Excluding the impact of price adjustments in 1991 and planned price adjustment in 1992 for items, such as grain, market price increases will still be low for 1992, with projections that 1992 retail price increases can be kept at about 6 percent.

But it is worth noting that capital goods market prices are rising faster, with commodity shortages and rising prices for some varieties. China's capital goods market sales price index for the first half of 1992 was up 6.4 percent over the same period in 1991. But while capital goods prices have not increased much overall, some of them have risen steadily ever since the beginning of the

year, creating a certain amount of market pressure, so that many consumers are buying whatever they can find without even asking about price, and it is projected that their prices will increase more than 10 percent for the year.

As to labor employment, the deepening of labor and personnel system reforms has brought a new look to China's labor employment scene. But while the employment and job structures have improved, and more manpower has gone to tertiary industries, there are still increasingly glaring problems of reemployment of surplus urban personnel and peasants entering the cities.

There has generally been some slight easing of the larger supply of than demand for new manpower.

Urged on by the spirit of Deng Xiaoping's speeches on his southern tour, China's opening up to the outside world is steadily expanding from the coastal zones to the Chang Jiang (river), border, and interior regions, with rapidly growing foreign trade, marked results in the use of foreign investment, foreign trade diversification progress, and brisker international economic and technical exchanges.

Customs statistics for the first seven months of 1992 show that China's foreign trade amounted to \$82.07 billion, up 19.3 percent from the same period in 1991, including exports of \$42.75 billion, up 16.4 percent, and imports of \$39.32 billion, up 22.6 percent. Excluding foreign trade for which foreign exchange was not paid or collected, China's exports for this period exceeded its imports by \$6.65 billion.

China's has also made progress in applying a foreign trade market diversification strategy. Its foreign trade with nontraditional trading partners has increased, as well as its percentage of all trade accounted for by that with nontraditional trading partners.

As China has persisted in opening up to the outside world, maintaining political stability and good economic prospects, steadily improving its investment climate, and taking a series of policy steps to stimulate investment, a new wave of foreign investment has appeared in 1992, with its real foreign investment for the first seven months of 1992 being up 43.3 percent over the same period in 1991, and direct foreign investment being up 102 percent.

An overview of China's whole economic situation shows that its current national economic growth momentum is positive, and its economic operations are essentially good. China's new finance minister, Liu Zhongli [0491 0112 5668], assesses the situation as follows: "While we still have problems, such as too much investment and credit, irrational structures, and slowing improving economic efficiency, our economic growth remains in a healthy state that can be regulated and controlled, so that there are heartening prospects."

Please allow me to respond to this finance minister's assessment by making the following concluding remarks to this article: Of course you must not lower your guard against existing problems. But as long as you pay attention to macroeconomic control of investment and credit, ease your inflationary pressures, and continue to adjust your structures and improve your enterprise economic efficiency, you will be able to maintain your rapid national economic growth momentum.

#### **GATT To Impact Machine, Electronics Industry**

*93CE0046A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, 5 Jul 92 pp 54-59*

[Article by Xing Yujiu (6717 3628 0036) and Yang Hua (2799 2901): "GATT Impact on China's Machine Building and Electronics Industry and Ways of Handling It"]

[Text] Restitution of our country's position as a signatory to the General Agreement on Tariffs and Trade [GATT] is a policy that China has clearly enunciated. Therefore, earliest possible study of the impact of GATT on the country's machine building and electronics industry and the framing of attendant policies holds extremely important significance for future reform and development of the machine building and electronics industry.

#### **1. Impact of GATT on China's Machine Building and Electronics Industry**

In an overall sense, restitution of China's status as a GATT signatory is necessary for the intensification of reform, for widening the opening to the outside world, and for improving the country's international standing. It is also a road that must be taken to speed up China's full economic participation in international competition, and to orient toward the international market. The impact of GATT on the country's machine building and electronics industry, particularly for the near term, is various. It both provides a new opportunity and also poses new challenges for the machine building and electronics industry. It will severely test the industry to an unprecedented extent.

(1) Restitution of China's position as a GATT signatory will give impetus to the intensification of machine building and electronics industry reform, and will accelerate change from the old to a new system.

1. GATT will pose new challenges for China's plan management system, and will accelerate reform of the planning system. At the present time, the starting point in planning the work of the machine building and electronics industry is oriented toward the domestic market, which is a very incomplete market. Since it consists mostly of enterprises that were formerly under ministry administration and their products, the scope of planning does not fit in with present circumstances by any means. Planning still focuses essentially on how investment is to be apportioned and what projects are to

be built. Without doubt, GATT will have a tremendous impact on this system. It will force us to accelerate reform of the planning system, and gradually to begin to build a quick response planning system that responds to changes in both domestic and foreign markets.

2. It will generate an enormous impact on the current economic pattern in the country that has grown up by itself over the years. It will help demolish regional obstruction of commodity flow and industry protectionism. It will also produce a positive effect on the entire domestic economic order. GATT requires that signatory nations increase the transparency of their foreign trade system, and make their foreign trade policy regulations uniform throughout the country. This is bound to have an enormous impact in gradually reducing China's trade distortions, and in eliminating local and sector trade protectionism. It will sweep away many problems that have been impossible to solve over the years because of policies, cut-up markets, and mutual rivalries. It will also play a definite role in decreasing overbuilding and mindless development.

GATT will play a role as a "booster" and a "catalyst" that stimulates change in the operating mechanism of the country's machine building and electronics enterprises. It will help more enterprises gradually building internal operating mechanisms that can meet international market competition. In fact, restitution of the country's status as a GATT signatory will mean a further opening of the domestic market to the outside world. To a certain extent, it will mean that China will become an organic part of the entire international market; enterprises will face competition from all parts of the world. This will force enterprises to an immediate organization of their production and business activities in accordance with international standards, market demand, prices, and customary business and marketing practices. It will promote technical progress and force enterprise operating mechanisms to change gradually toward international norms, and finally, it will build new mechanisms suited to both the domestic and foreign markets.

4. It will help accelerate the advent of various coordinated reform measures, speed up a change in government functions, and bring about a separation of government administration and enterprise management. At the present time, a considerable number of administrative units at all levels in the country—particularly organizations at the provincial and municipal level—still directly regulate enterprise functions. The problem of separation of government administration and enterprise management is far from solved. Therefore, the rare opportunity that restitution of China's status as a GATT signatory provides must be used to bring about a change in government functions and to put in place various coordinated policy measures, urging along governments at all levels to apply legal means and economic levers both better and more frequently in regulating and controlling economic work. The excessive government interference of the past must be changed so as to avoid GATT strictures pertaining to government interference. Other

matters such as the investment system, the import control system, and price policies must also be reformed quickly before and after restitution of China's status as a GATT signatory to bring China's economic system gradually closer to the international norm.

(2) Restitution of its position as a GATT signatory will hasten the machine building and electronics industry's opening to the outside world, thereby spurring improvement of the overall quality of the entire industry.

Restitution of China's position as a GATT signatory provides an exceedingly rare opportunity for China's machine building and electronics industry to open up completely to the outside world and truly move to the international stage in its economy, technology and trade. It will help expand machinery and electronics exports, and increase the country's foreign exchange earning capabilities.

1. Following entry into GATT, China will be able to enjoy permanent, unconditional, most favored nation treatment. Such treatment is, without doubt, a prerequisite for gaining fair trade treatment for and avoiding discrimination against machine building and electronics industry products in the markets of signatory nations. One important basic principle of the GATT is the non-discrimination principle, meaning unconditional most favored nation treatment and treatment of citizens. This multilateral most favored nation treatment is more consistent than bilateral most favored nation treatment, and it bears no time limitation. Its scope is also broader. This avoids changes in the trading climate resulting from noneconomic factors, and it helps avoid the economic control of our country by certain developed countries.

2. Entry into GATT based on genuine equality and mutual benefit will mean more rapid expansion of machine building and electronics industry exports. It will reduce the damage caused when certain importing countries, raise nontariff barriers against the products and equipment of China's machine building and electronics industry. Once China's signatory status has been recovered, we can use the general agreement's tariff protection principles to resist the unreasonable anti-dumping and anti-subsidy sanctions that developed nations apply, gradually eliminate these discriminatory actions, and avoid the unfairness and arbitrariness of importing nations in unilaterally issuing sanctions on the basis of their own laws. Thus, we will gain a more dynamic position in foreign trade that will enable the further development of machinery and electronics products, which already have an export market. It will also enable steady opening of new markets and improvement of export competitiveness.

3. GATT provides that China may enjoy most favored treatment as a developing nation to advance development of its machine building and electronics industry. The exception clauses in GATT provide that China's

machine building and electronics industries may participate more fully in international exchange and the division of labor, and cement trade relations with all countries, thereby playing a greater role in international trade.

4. GATT serves as a mechanism for resolving controversies. It may be used to solve some difficult problems that have arisen in bilateral relations about machinery and electronics exports. For China's machine building and electronics industries, which are not very well versed in the trade regulations of some countries, the GATT's mechanism and authority for discussing, mediating, and resolving disputes provide a certain security guarantee, and play a protecting role. They help improve the treatment accorded China's machinery and electronic products export trade and protect China's economic relations and trade interests.

5. GATT helps China participate in the formulation of rules and regulations pertaining to international trade and to gain economic and trade information about every country in the world, thereby further improving the external climate for promoting the exports of China's machinery and electronic products. After entering GATT, China can directly play an important role in discussing and drawing up rules and regulations for international trade. China will be able to express views that help its trade relations, permitting China to benefit to the maximum extent from the GATT multilateral trade system. In addition, as a signatory nation, China will also obtain rather complete documents about the trade policies, trade rules and regulations, statistical data on trade, and the trend of development of trade of other member nations. These will give China an understanding of the most recent trends in the trade policies of all nations, thereby enabling a change in our own trade policies. In addition, the open information channels will also help us obtain more technology, to develop invisible trade, and to accelerate development of an externally oriented economy.

(3) During the near term, restitution of GATT signatory nation status will have an unprecedented impact on China's machinery and electronics products markets. For a certain period of time, the machine building and electronics industry will come under severe pressure from imports.

After entering GATT, simultaneous with the entry into other countries of machinery and electronic products from China, the domestic machinery and electronics products market will become an integral part of the international market. The former market protection will no longer exist, and during the near term, this is bound to produce a substantial impact on the machinery and electronic products market. First, high and new technology products, which are just getting underway, will face severe challenges, and industries in their infancy will be threatened. Second, some overbuilt industries and low quality enterprises will find themselves in a very difficult situation; their room for survival will become

increasingly narrow. Third, products lacking an advantage in price or quality will be gradually eliminated through competition. The caliber of machine building and electronics enterprises, which are large in number and spread over a wide area, will be severely tested. China's machine building and electronics industry will once again be at a crossroads in its development. What course to follow will require a clear analysis of pros and cons.

1. The impact on high and new technology machinery and electronics products. Given the current state of China's machine building and electronics industries, the high and new technology industries now springing up in China are in no position to contend with advanced products of the same kinds from foreign countries. Were the "protective wall" around the domestic market to be torn down, the very first items to enter the country would be these highly processed, finely processed, high added value, new technology machines and electronics products—things such as computers, video recorders, copy machine, automobiles, motorcycles, color television sets and tubes, digitally controlled machine tools, broadcasting and television equipment, communications equipment, automated precision printing machines, precision processing machinery, various industrial control devices, automated devices, and cameras. Were the country's import commitments to become excessive, actions to limit them, such as cancellation of import licenses and measures to protect the country's electronics industry, would have to be taken; otherwise, "foreign goods" would very likely flood China. This possibility poses a real threat to China's electronics industry. In the near term, China's high and new technology realm may sustain some losses. We will have to pay a price in a certain amount of pain. People must understand this sufficiently and clearly. Although the GATT's protection clauses permit an industry that sustains heavy losses to practice emergency protection for four or five years; enterprises that cannot straighten themselves out after a long time cannot continue to be protected forever.

2. Some machine building and electronics industries that are seriously overbuilt, particularly so low quality enterprises will have to halt production, shift into other lines of production, go bankrupt, or close up shop with the implementation of GATT and in the process of opening domestic markets to the outside world. At the present time, China's machine building and electronics industry is a fairly seriously overbuilt and dispersed industry. So long as domestic markets practice protectionism, this situation is also very unlikely to change, but once the markets are opened to the outside world, these seriously overbuilt industries—particularly some enterprises whose production is backward and that produce shoddy products—are bound to feel the merciless punishment of the competition mechanism. A substantial number of enterprises will have to choose another course of development, and some enterprises will be buried. The advent of this situation will deliver a fairly big shock to the

country's machine building and electronics industry as well as to society as a whole that will cause a series of chain reactions.

3. Machinery and electronics products that cannot compete on price and quality will lose their former protection as the domestic market is opened to the outside world. The possibility exists that they may be eliminated through competition. Right now China still practices the import license system, which provides a certain amount of protection for domestic industries. However, such measures produce a dual effect: On the one hand, they hamper imports to protect the domestic market while also protecting backward industries and obstructing competition on the other's. Consequently, some enterprises do not work hard on batch production and improving quality; instead, they depend for a long time on a distorted price system to make a profit. Even so, a substantial number of enterprises lose money year in and year out, or teeter on the brink of losses. Such a situation is extremely unfavorable for development of the indigenous economy; it must be changed. Take, for example, the passenger cars that China produces for which the price is vastly higher than for a foreign-made passenger car of like quality. Elsewhere in the world, the profit rate on automobile production is approximately 4 to 5 percent, but in China it is more than 10 percent. The extremely irrational automobile pricing system actually prevents the development and growth of the automobile manufacturing industry, which cannot compete at all with imported products.

## 2. Ways in Which China's Machine Building and Electronics Industry Can Deal With GATT

The foregoing analysis shows that the effect on the machine building and electronics industry of the restitution of China's position as a GATT signatory will be both real and permanent. It offers both a rare opportunity and a grim challenge. In the near term, in particular, it will produce an enormous impact on the machine building and electronics industry. Of crucial importance here is whether we can control the changed situation, instituting appropriate means for dealing with it, acting adroitly as circumstances warrant, going after advantages while avoiding disadvantages, seizing opportunities, and managing to develop.

(1) Full use of the opportunity that restitution of China's position as a GATT signatory provides to accelerate the pace of fully opening the machine building and electronics industry to the outside world, spurring the entire industry to take the road of externally oriented development.

1. Need for readjustment of a primarily import substitution development policy. Changing import substitution to a combination of internal sales and an export orientation, using an outward thrust to forestall pressures to get in. Heretofore, the machine building and electronics industry has always practiced import substitution, satisfaction of internal market demand being the

main goal of its development. Despite the clear call for an orientation toward both the internal and the external market in recent years, it fails to understand international market quotations very well. It continues to concentrate its main energies on the domestic market, and this has led to our current passive position in international market competition. Therefore, we must readjust our thinking as quickly as possible, taking ventures outside our own country and the development of international markets as our goal to make more room for the survival and development of our machine building and electronics industry. We must use efforts abroad to stimulate efforts at home, and use extension in a quest for development, gradually enabling the machine building and electronics industry to occupy a position in both the domestic and the foreign market.

2. All trades must accelerate the opening to the outside world in all directions and take the initiative in going on the offensive in order to spur the machine building and electronics industry to fashion an externally oriented development pattern with all possible speed. First is the selection of some new and high technology industries, and some business concerns that have been starved for capital for a long time that can raise the overall manufacturing level of the machine building and electronics industry, giving priority to a full-fledged opening to the outside world, attracting foreign capital to the maximum degree, and using advanced technology to transform some key areas and key enterprises. Second is the adoption of genuinely workable policies to encourage machine building and electronics enterprises to venture outside of China to take part fully in the international division of labor and exchange. The state and governments at all level must seize the historical opportunity that China's entry into GATT provides, study and formulate attendant policies as quickly as possible, give foreign trade as much autonomy as possible, and support domestic enterprises in going abroad to operate plants, to purchase plants, to invest, to form joint ventures, to cooperate, to retail, and to develop long-term and firm cooperative relationships with foreign financial groups. It is particularly necessary at the present time to accelerate the establishment abroad of maintenance and service points, and to operate parts assembly plants. This is for the purpose of beginning to set up commercial networks, sales networks, and maintenance networks to provide services. It can also circumvent trade barriers, and increase SKD and CKD unassembled parts exports, as well as develop abroad local certificate of origin exports and improve returns from exports.

3. Full use of national preference policies to encourage the export of machine building and electronics industry products and GATT trade principles, thereby promoting substantial development of the machinery and electronic products export trade. Although foreign exchange earnings from the export of the country's machinery and electronics products are increasing year after year, the total amount is still extremely limited, amounting to less than 1 percent of the world's total machinery and electronics products exports. Export output value amounts

to only 12.5 percent of gross industrial output value, and is only 19.6 percent of the country's total foreign trade exports. Potential remains very great, and the room for development is also rather wide. Given the present quality and level of China's machinery and electronics products, breaking into the markets of developed countries in Europe and the Americas today is possible only if we remedy our omissions and shortcomings. Most machinery and electronics products still do not pass muster. The places that provide real room for maneuver are the developing countries, particularly the markets of peripheral countries. The economies of these countries complement ours to a fairly large extent, and the quality, level, and prices of our products also suit them rather well. This is the market that we must strive to open from now on. In response to this requirement, the machinery and electronics industry must make a major effort and adopt more effective measures to improve the make-up of export products, improve export product quality, organize export conglomerates, and make the most of group competitive advantages to change the present decentralized "small agricultural type" foreign trade business organization style.

(2) Reform and perfect the import control system to enable operation that employs the optimum combination of protection and competition, the better to stimulate the development of indigenous industry.

The existing import control system plays an important role in limiting ill-advised imports and imports that produce no return, and in optimizing the make-up of imports. However, with the intensification of reform and opening to the outside world, it will not meet GATT requirements, nor requirements for development of China's economy itself. Fairly large problems on people's minds in various walks of life are as follows: 1) use of administrative examination and control as the overall import control system puts many agencies in charge and government that speaks with many voices for a weakening of macroeconomic control; 2) no mechanism has been established that employs industrial policy to guide imports; 3) importation of technology is hurt by an import system having conflicting or ill-defined requirements, such as Seventh Five Year Plan technology imports amounting to only 8.5 percent of foreign trade imports; 4) import control legislation lags; commodity safety and health standards for some imports are not very complete; 5) too much protection in some areas that hampers the development of both the economy and exports, and prevents competition. These problems can be gradually solved through reform and improvement of the import control system, and transitional measures can be found that are both in keeping with GATT provisions and that can generally ensure an optimum combination of development and competition in indigenous industry. Import controls cannot be rescinded or weakened on account of the foregoing problems or GATT requirements. It is suggested that when the state readjusts import control, it will take into consideration the following several problems:

1. The new import control system must help promote and protect development of China's indigenous industry. One cannot view imports with closed and defensive eyes, and an apprehensive and fearful mind. One must adopt open and enterprising ideas and expansive lines of thought. Not only may backward industries not be protected, they must be spurred to change through competition in order to gain new vitality. However, for certain newly developing industries and high and new technology products whose development the country is bending every effort to support, protection must be afforded through many measures, import controls among them. We must proceed from realities to widen this concept of indigenous industry. Indigenous industry includes not only the existing industrial base, but must also include industries developed through the importation of advanced foreign technology applied to China's circumstances. In fact, when advanced foreign technology is converted into industries of our own, these are new indigenous industries, and the goods they make are Chinese-made goods that must also be protected and supported. Such new indigenous industries must be given clear support through the import control system. At the same time, close attention must be paid to the international balance of payments situation, fullest use made of readjustments in foreign exchange rates, import tariff rates adjusted little by little, and effective use made of the exception articles in the GATT regulations.

2. Perfection of import control laws and regulations, improvement of safety standards for machinery and electronics products, and following the principle of first building a new structure before tearing down the old one so as to prevent a control vacuum that causes a loss of control over imports. It is suggested that more be done to build up the legal system for starters, all possible done to clarify existing rules and regulations, scrapping regulations that should be scrapped, readjusting those that should be readjusted, and acting promptly when new regulations are required. In addition, earliest possible attention must be given to the study and drafting in accordance with international practice and on the basis of Chinese realities of an *Anti-Dumping Law*, a *Foreign Trade Law*, *Import Control Regulations*, and *Provisions for the Protection of Infant Industries*, for the gradual regulation of China's imports in accordance with prevailing international legal procedures and according to law. In addition, quota licensing control regulations must be perfected to make quota controls more standardized and more transparent. Technology import control regulations must be perfected, basing them primarily on economic measures to speed up the importation of technology. Safety standards for machinery and electronics products must be perfected to ensure import product quality (this can also serve as a means of checking and balancing the nontariff barriers of western countries) so that import work promotes the development of our economy, particularly the healthy growth of newly emerging industries.

3. When readjusting specific import control matters, full consideration must be given to the large number of new

and high technology products of China's machine building and electronics industry, its relationship to other industries, and its widespread influence, devoting separate attention to each aspect. It is recommended that the state take into full account the tolerance of the machine building and electronics industry, making every effort to solicit the views of all sectors on concrete issues such as specific items for which adjustments are to be made and the extent of the readjustment. This will make the new measures to be put in place more consistent with both the GATT regulations and our own requirements. Certain imports will be restricted to ensure the growth and development of domestic high and new technology industries.

4. Study and drafting of some new measures to protect indigenous industries while reforming and perfecting import controls.

(3) Enhancing the extent of readjustment of the product mix and the enterprise organizational structure to hasten development of high and new technology products and to promote the updating of products and the reorganization of industry.

1. Energetic development of newly emerging industries to hasten the industrialization of high and new technology products. China has already done a certain amount of work to hasten the development of high and new technology products, and to put in place the basic conditions needed for industrialization of high and new technologies. First, the primary resource needed for new and high technology industries—human talent—is in fairly good supply. Second, the technical foundation needed for the development of high and new technology industries is available to a certain extent; and third, a certain amount of experience has been gained in the production of high and new technology products. A certain amount of development and production ability is inherent. The problem today is to further increase in the amount of capital invested to link scientific research to production in order to accelerate development. The development of high and new technology products must be used to upgrade the product mix, to improve ability to open both domestic and international markets, and to avoid incurring greater losses as a result of the GATT regulations in the development of high and new technology machinery and electronic products.

2. Need to broaden horizons, actively pioneer new fields of development, and seek new survival space. Large scale, across-the-board updating of products must be done on top of what has already been accomplished, products serialized, unitized, and new colors, styles, designs, and sizes developed. Specifically, a major effort must be made to develop a number of new products to satisfy the consumption needs of consumers at a higher level and at fairly numerous levels, and to consolidate markets in order to reduce to the minimum the impact of the GATT regulations on the large and broad machinery and electronics products market. Second, the large imports of machinery and electronic equipment must be

examined and analyzed with a view to selecting those products for which there is a market demand that China can manufacture itself, or for which key parts may be imported to permit fabrication, then undertaking development to produce a certain capacity, and allaying consumer fears about reliability so that the products can compete with foreign ones and carve out a certain market. Third is to turn to advantage the technical transformation of industries and their widespread demand for machinery and electronics products, using this as a means to develop equipment and systems that suit users' needs, as well as the parts and accessories need to repair machinery and electronics equipment. At the same time, a decision must be taken to get rid of a number of backward products that cannot compete.

3. Reshape enterprise organizational structure, promoting partnerships. First, emphasis must go to the 16 large machine building and electronics business conglomerates listed in plan, policies used to transform their mechanisms, and conditions created to increase their vitality. The economic and technical strength of this group of large business conglomerates must be gradually increased, and they must be urged to take the lead in competing in international markets. Second, energetic efforts must be made to develop enterprise partnerships, enterprises encouraged to use name brand, premium, special, and new products as turnkeys, and outstanding enterprises used as a nucleus to develop partnerships and mergers with the goal of optimum allocation of resources. Full use can be made of one enterprise contracting with another, one enterprise leasing another, and the shareholder system to promote a rational flow of enterprise assets that accelerates the reorganization and transformation of the enterprise organizational structure. Third is the decision to eliminate a number of trades and enterprises that possess no advantages in assets, and that lack long-term significance to attain the goal of industrial reorganization and enterprise reorganization. Initiative must be taken to do the preparatory work needed to make machine building and electronics industries conform to GATT regulations and to open markets to the outside world, reducing the impact and the shock.

(4) Step-by-step readjustment of the price system to hasten the pace of bringing prices of China's machinery and electronics products in line with international market prices.

At the present time, prices of most Chinese machinery and electronics products are higher than for most products of the same kind in foreign countries. This not only causes an overbuilding of Chinese factories that produce "hot" products and redundant imports despite repeated prohibitions, but it also creates a hiatus between domestic and foreign market prices that makes it difficult for Chinese products to compete. The opportunity that entry into GATT affords must be taken to readjust the existing price structure for gradual solution to the problem of a price gap between Chinese and foreign products of the same kind.

1. Make the market mechanism a part of price reform, removing with all possible speed virtually all price restrictions on the domestic machinery and electronics product market to solve the problem of deviation between price and value.
2. Various actions to reduce production costs and abolishing various price increases that make no sense so that prices of Chinese produced machines and electronic products gradually become about the same as prices of imported products.
3. Crack down hard on smuggling and contraband to control the impact on the domestic market of illegal imports to give Chinese products the market space and the time needed for batch production and lower prices.

(5) Further acceleration of the pace of reform, going all out to advance separation of government administration and enterprise management for the gradual shaping of a new economic system and operating mechanism in which the state fosters, regulates, and controls markets, and enterprises develop through market competition.

Restitution of China's position as a GATT signatory means not only gaining fair and favored treatment in trade, but it will also play a "propellant" role in bringing about China's transformation from a plan economy to a market economy, and this will fundamentally shake China's prevailing economic system. We must seize this historical opportunity to accelerate further the pace of reform, genuinely moving enterprises into the boundless sea of the market economy where they will be buffeted by the wind and lashed by the waves, and gradually adjust to the open market environment in which they can compete and grow.

1. Vigorous promotion of the separation of government and enterprise functions, rectifying government behavior to make the superstructure fit in, first of all, with the completely new economic operation pattern in the wake of the dovetailing of the domestic market with the international market.

2. Vigorous efforts to nurture and build machinery and electronics products markets to create a market environment of equal competition for enterprises. This means doing work in the following three regards: First is the gradual nurturing and building of a machinery and electronics product market system, including markets for both spot and futures trading, markets for both individual item and complete assembly trading, and markets that provide specific kinds of services and services of every kind. Second is better regulation, control, and guidance of the machinery and electronics products market. The first thing to be done right now is to publish regularly supply and demand trends, price changes, and new product information for both domestic and foreign markets; regularly publish catalogues of hot selling products and products being phased out; do a good job of forecasting the development of major products, and set up market early warning and early reporting systems. Third is to work with government departments concern

to study and draft a series of policies, rules and regulations, and attendant measures to solve current problems of cut up markets, and industry and sector protectionism to improve market transparency and created the conditions needed for fair exchange.

3. Promote a change in the enterprise operating mechanism that enables enterprises to shape as quickly as possible new operating mechanisms for survival and development in domestic and foreign markets. Experiences should be diligently summarized as a basis for exploring operating methods that can better suit enterprises to become independent and responsible for their own profits and losses in conjunction with the further opening of domestic markets to the outside world. These methods should be gradually standardized so that most enterprises will be in an invincible position in both domestic and foreign market competition.

#### SPC To Reform Planning System

93CE0065A Beijing JINGJI RIBAO in Chinese  
25 Sep 92 p 1

[Article by Wang Yuling (3769 3768 3781): "SPC To Reform Planning System and Introduce New Investment Measures"]

[Text] The State Planning Commission [SPC], the largest comprehensive agency under the State Council, recently announced a series of reform measures aimed at changing the highly centralized administrative command type of planned management system of the past and establish a new macroeconomic management system that can accurately reflect the market and effectively guide it. In the future the main responsibilities of the planning agency will be to study strategies, formulate plans, nurture the market, concentrate on key construction, carry out macroeconomic regulation and control, and coordinate services.

In explaining the above reform measures, Vice Minister Liu Jiang [0491 3068] and Secretary General She Jianming [0152 0256 2494] of the SPC said that specifically the SPC would work to accelerate functional changes in these eight areas. First, instead of concentrating on microeconomic activities, setting targets, allocating investment, examining and approving projects, and allocating materials, the SPC would now spend most of its energies on working out an overall economic development strategy and major policies and goals. Second, instead of using administrative tools to carry out direct management, it will now apply mainly economic policies, economic tools, and economic laws and regulations to carry out indirect management. Third, replace the emphasis on economic activities in that sector of the economy owned by the whole people with more attention to guide, regulate, and control the economic activities of all society. Fourth, instead of emphasizing in-kind and target planned management, it will concentrate on value management and planned management of a policy and forecasting nature. Fifth, instead of emphasizing the

regulation of industrial production, it will concentrate on the guidance, regulation, and control of the entire process from production through distribution and circulation to consumption, paying special attention to the development of agriculture and the tertiary industry. Sixth, instead of emphasizing the regulation of supply and ignoring market demand, they will orient themselves to the market, study market changes, and take pains to regulate market demand, paying more attention to opening the market and building a market system. Seventh, the old emphasis was on the static equilibrium of economic activities and resources within the country. The new thrust is to actively use the two markets—domestic and foreign, the two kinds of resources, and the two kinds of funds to carry out planned balancing in a dynamic and open way. Eighth, the old emphasis was on planned management of a control mode. The new emphasis is on macro management characterized by coordination and the provision of services. Firmly instill the notion of serving the grass roots and enterprises. Intensify information and consulting services.

To achieve the above functional changes, the SPC will give localities and enterprises additional decision-making power in capital construction investment and improve and strengthen the macro regulation and control of investment. This means, essentially: 1) Further broadening the power of the governments of provinces, autonomous regions, municipalities directly administered by the central government, and municipalities with provincial-level economic decision-making authority to review and approve investment projects. 2) Increasing enterprises' investment decision-making power so that they become key players in investment over time. 3) Continuing to give more decision-making power to provinces at the first level, special economic zones, and certain large enterprise groups in the area of the utilization of foreign investment to fund construction projects. 4) Encouraging localities and enterprises to participate in key national construction projects as investors to put an end to the practice of the government footing the bill for all or the bulk of key capital construction projects. 5) To increase the return on investment in capital construction, a project owner responsibility system shall in principle be applied to all new large- and medium-sized capital construction projects in the future. Establish a microeconomic operating mechanism whereby investment players would seek self-development, practice self-discipline, and be efficiency-minded. 6) Simplifying the examination and approval formalities for construction projects to make the whole process more efficient. When a locality or enterprise submits a project application to it for examination and approval, the SPC shall give a specific response within 60 days after it receives the

materials. 7) Improving and tightening the macro-regulation and control of fixed assets investment. Control the sources of construction funds as the principal means of regulating and controlling the scale of fixed assets investment in all society. Limit the scale of fixed assets investment to what the nation can afford financially. Guide investment into proper channels. Prevent unnecessary project duplication.

Reportedly the SPC will further reduce state command planning next year. Planned targets in agriculture, industry, materials, commerce, and exports that are directly under the control of the SPC will be cut by over one-third in 1993, almost half of them command planned targets. In agriculture, a handful of products like grain, cotton, oil-bearing crops, and flue-cured tobacco which impact the national economy and people's livelihood will be under guidance planned management, while production targets will be abolished for all other crops. In the case of industries which are quite competitive, such as metallurgy, the chemical industry, electrical machinery, light industry, and textiles, planned targets are abolished and replaced by market regulation in some cases. Of the more important targets that are retained, some consist of only an overall national target instead of being broken down into sub-targets assigned to lower units. In the case of a number of capital goods where supply and demand are largely in balance and where official prices and market prices are close or have been combined into one price, command allocation planning will be abolished to be replaced by an appropriate state ordering system. The purpose of state ordering is to satisfy certain specific needs or to regulate the market. The plan is to apply state ordering to such key materials as tires, rubber, automobiles, aluminum products, copper products, and pig iron next year. The command plan for commodity procurement, allocation, and transfer will also be scaled back next year; commodities like cotton cloth and wool will be removed from such planning while the procurement, allocation, and transfer of vegetable cooking oils, pigs, and sugar will come under guidance planning. The catalogue of export supply commodities and that of export control commodities, which come under the jurisdiction of the SPC, will consist of 19 and 10 items, respectively, in 1993, down from the current 27 and 11, respectively.

Even as it rolls back planned targets, the SPC will step up the macro guidance of the state plan, including the improvement of the macroeconomic regulation and control system; intensify overall balanced planning; strengthen the industrial policy as a guide; put economic forecasting and analysis on a sound footing; and improve the form and substance of planning.

## PROVINCIAL

### Economic Development Zones Proliferate in Shaanxi

#### Hanzhong Prefecture

93CE0045A Xian SHAANXI RIBAO in Chinese  
13 Sep 92 p 4

[Article: "Three Large Development Zones"]

[Text] The three large economic development zones in Hanzhong Prefecture are: the Ministry of Light Industry's Hanzhong Municipal Composite Economic Development Zone, the provincial Science Committee's Nanguan Economic and Technical Development Zone, and the Xixiang Economic Development Zone that the enlarged meeting of the Hanzhong Prefecture CPC Committee decided to establish.

In building the development zones, the principle of "special handling of special matters, and new handling of new matters" was followed, new concepts, new ideas, new policies, and new measures adopted for the building of an entirely new economic system and operating mechanism as a means of succeeding through a distinctive approach. All the successful policies used elsewhere may be applied here as specific circumstances require, and policies never adopted elsewhere may also be tried out courageously here, preferential policies provided for land use, worker and cadre recruitment, wages and bonuses, the collection of taxes and fees, energy supply, financing, manpower movement, and welfare services; advanced domestic and foreign management experiences boldly applied; and the development zone bringing in an operating mechanism that is largely market-regulated to conduct economic activity in accordance with the laws of value. No longer will the newly founded enterprises be run like the old state-owned enterprises; instead, three kinds of partially or wholly foreign-owned enterprises, limited liability corporations and shareholder limited liability corporations will be vigorously developed, and they will operate as self-capitalized, voluntarily organized, independently administered entities responsible for their own profits and losses that are self-developing and self-limiting.

#### Six Coordinated Projects for Industrial Development

(1) Coordinated development of serialized products of the chemical industry taking the 10,000 ton caustic soda output of the prefecture's chemical industry main plant as a turnkey. Coordinated projects for the production of 14 different products are to be built with an investment of 168.09 million yuan to produce an additional output value of 140.25 million yuan, and 67.92 million yuan in new profits and taxes each year.

(2) Coordinated development of the packing and packaging industries using tobacco, alcoholic beverages, and food as a turnkey. Nineteen projects are to be complete, a total of 164.48 million yuan invested to produce an

additional 112.57 million yuan in output value, and profits and taxes of 46.76 million yuan.

(3) Coordinated development of a new type construction materials industry using stone materials and cement as the turnkey. Plans call for the building of 17 projects during the Eighth Five-Year Plan, the emphasis going to the production of special kinds of cement, new type wall construction materials, paints, and the development of stone materials. A total of 66.18 million yuan is to be invested to produce an additional 140.57 million yuan in output value, and to gain 32.55 million yuan in additional profits and taxes.

(4) Coordinated development of a new special foods serial production industry using black rice as a turnkey to complete 17 projects. A total of 48.89 million yuan is to be invested to produce an additional output value of 179.38 million yuan and annual profits and taxes of 43.33 million yuan.

(5) Coordinated development of a pharmaceutical industry taking the Hanjiang Pharmaceutical Manufacturing Plant as a turnkey, building 16 complete projects during the Eight Five-Year Plan, investing 45.03 million yuan to produce 159.25 million yuan of additional output value and 32.29 million yuan in new taxes and profits.

(6) Coordinated development of a complete motor vehicle and machinery products processing capability using the large passenger cars of the Hanzhong Automobile Plant as a turnkey. Initial discussions call for moving ahead with the completion of 20 projects producing an output value of 31.28 million yuan and taxes and profits of more than 7 million yuan. This plan offers great potential. The 012 base has already established a leadership team and a working body to continue work.

Completion of the foregoing coordinated projects will require an investment totaling 492.67 million yuan. They will add 1.0632 billion yuan of output value and produce 126.02 million yuan in new profits and taxes. With the initial completion of these projects, the enterprises will have production capabilities; stable markets for sales, and rather good economic returns. The input-output ratio is 1:15:0.45, meaning that for every yuan invested, 2.15 yuan in increased output value will be created, and 0.45 yuan in new profits and taxes will be gained. This exceeds the returns of the Sixth and Seventh Five-Year Plan periods. These projects will serve as six towering pillars for the invigoration of Hanzhong Prefecture's industry, will concentrate manpower, material, and financial resources, and will produce return with effort.

#### Mianxian County

93CE0045B Xian SHAANXI RIBAO in Chinese  
14 Sep 92 p 2

[Article: "Briefing on Economic Development in Mianxian"]

[Text] The Mianxian economic development zone is located near the county seat. Plans call for a 4 square kilometer tract here. To the south runs national highway 108; to the north lies the Yangpingguan-Ankang Railroad; running from east to west are Chemical Industry Road, Mianwang Road, [character indistinct] zhong Road, and Xianfeng Road, which serve respectively as

boundaries for the chemical industry sub-zone, the processing industry sub-zone, the residential sub-zone, and the business and trade sub-zone.

The terrain in the development zone is flat; transportation is developed; water is available; electric power is ample; communications methods are advanced; and service facilities have begun to take shape. Both the Yangpingguan-Ankang Railroad and national highway 108 traverse the development zone. The zone is only 500 meters distant from the Yangpingguan-Ankang railroad station in Mianyang, and is only 3 kilometers from Mianxi Railroad Station—the largest marshaling yard in southern Shaanxi. Two large electric transformer stations are located in the zone. The transformer capacity of these stations totals 500,000 KVA, but less than half of the load rate is currently used. Water is plentiful. The county water company can supply 10,000 tons daily, sufficient for the needs of the development zone. A programmable telephone system is to be completed by the end of the year permitting direct dialing in China and abroad. Within the development area are five county level middle and primary schools having superior teaching facilities. The quality of instruction in Mianxian's Yizhong and Jiuzhi middle schools is among the best in the whole province. The zone has plentiful technicians, advanced equipment, and six hospitals, including a county hospital with plenty of beds, a Chinese medicine hospital, and a railroad hospital. A complete infrastructure provides a fine investment climate for investors.

Mianxian's investment prospects are very bright. In recent years, nearly 10 central government, provincial government, and local enterprises, including the Ministry of Metallurgy's No 9 Metallurgy Construction Company, the Ministry of Aeronautics and Astronautics' Xianfeng Machinery Plant, Shaanxi Province's Hanjiang Iron and Steel Mill, and Hanzhong Prefecture's Main Chemical Industry Plant, Phosphate Fertilizer Plant, Iron and Steel Mill, and Ferro-alloy Plant have made great contributions and accomplished real tasks all around the development zone. Twenty-two well-equipped, technically advanced, and well-staffed central government and provincial government enterprises have settled in and are working happily in Mianxian.

We warmly welcome people with ideals and integrity from both China and abroad to come to Mianxian to realize their ambitions!

### Chenggu County

93CE0045C Xian SHAANXI RIBAO in Chinese  
15 Sep 92 p 3

[Article by Chenggu County CPC Committee Secretary Li Guozhen (2621 0948 2823), and Chenggu County Magistrate Hu Yunting (5170 0061 0080): "Chenggu Fervently Hopes for Persons Having Noble Aspirations"]

[Text] Chenggu County is located in the middle of the Hanzhong Basin in southern Shaanxi. It is bounded on the south by Ba Shan and on the north by the Qinling: The Han Jiang cuts across it from east to west, and both the Yangpingguan-Ankang Railroad and national highway 108 traverse it. It is the birthplace of "Silk Road" explorer Zhang Sai, and it is also the place where Yun-8 transport aircraft and minicars are produced. In ancient times a wall was built around the county seat when the county was established. The feeling at the time was that "the wall [cheng] that was begun would endure [gu] forever," hence the name Chenggu for the county. The county totals 2,265 square kilometers in area and has a population of 490,000.

Chenggu has a humid, semi-tropical monsoon climate. Its abundant production of paddy, wheat, rapeseed, black rice, fragrant rice, glutinous rice, corn, and sorghum makes it one of the grain and edible oil base counties in Shaanxi Province. It has many kinds of cash crops and forest specialty products such as citrus, tea, raw lacquer, wood fungus, tuber of elevated gastrodia [Gastrodia elata], tobacco, ginger, gallnuts, eucommia bark [Eucommia ulmoides], moso bamboo, actinidia berries [Actinidia chinensis], corydalis tuber [Rhizoma Corydalis], and coir fiber. Such mainstays number more than 30, and production bases have been built for most of them. The province's forest area covers 1.59 million mu, and more than 10,000 mu of ponds and reservoirs support the rearing of fish. More than 10 different mineral deposits have been verified including limestone, marble, silica, and blue talc. Reserves are large; grades are high, and deposits can be easily mined.

Chenggu has a long history. It has numerous cultural artifacts, historical sites, and scenic tourist spots. More than 2,000 artifacts have been excavated, including 486 Shang and Zhou bronze "square wine vessels" that have been termed first rate national cultural relics. Eight Chenggu scenic sites including the Nansha He Reservoir, Liulang's olives, the autumn scenery in citrus growing areas, and the tombs of Han nobles are appreciated by Chinese and foreign tourists alike.

In order to use the province's resources to best advantage, since the Third Plenary Session of the 11th Party Central Committee, we have pursued a basic line of "one center and two base points" in accelerating the pace of economic construction. Throughout the province a new pattern of economic construction has taken shape of equal emphasis on industry and agriculture, linking cities with the countryside, overall planning, and coordinated development. In 1991, gross output value of the county's industry and agriculture totaled 1.114 billion yuan, for a quadrupling ahead of schedule of the 1980 output value. Agriculture has produced bumper harvests for 10 years in a row, per capita grain output reaching more than 1,000 jin per year and contributing more than 100 million jin of commodity grain. Output value from economic diversification has increased tremendously amounting to 72.8 percent of the gross output value of agriculture. Township and town enterprises have

become an important integral part of the rural commodity economy. In industry, the chemical, construction materials, brewing, tobacco, light industry and textiles, smelting, machinery, and electric power sectors have begun to become principal industries, turning out premium quality name-brand products in endless profusion. Fourteen products have received provincial premium quality awards, and three have received national ministry premium quality awards. Tobacco and alcoholic beverages have broken into the international market. Output value of the province's premium quality products accounts for 20.15 percent of gross industrial output value. In addition, active efforts have been made to develop external economic and technical cooperation, lateral economic relations having been established with more than 10 prefectures and counties inside and outside the province. Links have also been forged with a number of institutions of higher education, scientific research units, and industrial and mining enterprises for the building of long-term technical cooperation, which plays an important role in developing the county's economy.

However, owing to financing, technical, and personnel difficulties, the province's advantages have yet to be used to the fullest. Large amounts of resources have yet to be developed, and partners are being sought for the joint development of numerous projects. Cooperation prospects are vast. While studying the remarks of Comrade Deng Xiaoping during his travels in south China, we have proceeded from local realities, boldly emancipated our thinking, and made up our minds to employ the pioneering and enterprising spirit of Chenggu's ancient sage, Zhang Sai, to lead the cadres and masses of the province in advancing to a higher level, and working to achieve a comfortably well-off standard of living. In order to improve the investment climate further, the better to attract a broad spectrum of Chinese and foreign traders to invest in Chenggu, not only has the county drawn up a series of preferential policies, but it has also established a 2.18 square kilometer economic and technical development zone along both sides of Xihuan Highway 1. This development area is located close to the Chenggu Railroad Station on the south, and on the west it abuts the planned joint airport-military base airfield. The Hancheng-Baile and the Chenggu-Huanglong highways traverse it from east to west. Both communications and transportation are readily available; the terrain is flat, and people term the place a "heartland." It is an ideal site for investment in industrial and commercial enterprises. Both Chinese and foreign traders are welcome to invest in its development.

#### Tongchuan City

93CE0045D Xian SHAANXI RIBAO in Chinese  
15 Sep 92 p 4

[Article: "Up-and-Coming Economic and Technical Development Zone"]

[Text] Tongzhou City's economic and technical development zone is located on the Gaonian Plain 1 kilometer to the west of the Yaoxian county seat. An approximately 6 kilometer wide tract bounded by the Ju Shui on the east and the Zhaoshi He on the west, and approximately 4.5 kilometers long extending from Yihe Village in the south to Yehupi in the north—26 square kilometers all in all—is planned for development. Five square kilometers are to be developed initially.

The development zone's geographical location is superb, and the natural environment advantageous. It is 70 kilometers distant from Xian to the south, and 20 kilometers away from Tongchuan in the north. It is approximately 70 kilometers away from the tomb of the Yellow Emperor. The soon-to-be-built first rate Xian-Tongchuan Highway runs close to the southeastern end of the development zone. The Mei-Qi Railroad and the Dingxi natural gas pipeline run close to the zone. Three railroad stations and two freight yards of the Mei-Qi Railroad are located within 2 kilometers of the development zone, and the zone is connected to the land bridge between Europe and Asia—the electrified Longhai Railroad—via the Xianyang-Tongchuan railroad spur. Two local railroads—the Yaoxian-Zhao and the Yaoxian-Liu—prescribe a cross shape within the zone. Transportation is readily available in all directions from the zone. The plains area slopes from north to south. The natural slope is 2 - 4 percent, and elevation above sea level runs from 660-770 meters. The plain is vast and the land flat. North of the plain lies the Xiang Shan, and in the south lies Xian. The east looks out on the Yaowang and Baojian mountains, and the west fronts on Cuoe Shan. The geographical setting is richly endowed by nature. In the northeast—15 kilometers up the Ju Shui—the Taoqubo Reservoir having a effective capacity of 34 million cubic meters has been built, conduits from it extending into the development zone. In the southwest, the Yuhuangge Reservoir on the Zhaoshi He lies close to the plain. It can supply water directly to the zone. The surface water conservancy rate is high. Aquifers abound within the zone providing ample supplies of water. In the northeastern corn of the development zone a 330 KV transformer station is being built, and in middle of it a 110 KV power station has been built. The supply of electric power is plentiful. The large and small coal mines already in being within 50 kilometers of the zone can provide 3 million tons of coal annually. Prospects are optimistic for the gas fields north of the Wei He, which are currently being prospected, and supplies of energy are readily available and dependable from within 50 kilometers of the zone.

The development zone is located in the western part of the Yaoxian County seat, which is a fairly concentrated industrial zone. Here, there are more than 20 large and small cement plants having an annual output of 2.1 million tons of cement of which the Yaoxian Cement Plant is the largest in the country. Textile, paper making, ceramic and porcelain, carborundum, construction materials, medical apparatus, and pharmaceutical and

health care industries have also mushroomed, their products moving in a continuous stream to both domestic and foreign markets. In addition, numerous local township and town enterprises are located here. As of the end of 1991, there were more than 1,900 of them employing 18,000 people and producing an annual output value of more than 100 million yuan.

The agricultural economy is rather well developed, grain output increasing most. Economic diversification led by the growing of apples and Sichuan pepper has developed rapidly, a 10,000 mu apple base coming into being. Forest specialty products are abundant. More than 150 different wild pharmaceutical materials are produced in commercial quantities, 400,000 kilograms of honey being procured annually. The "Yaozhou Medicinal Materials Collection and Distribution Center," currently under construction, is located between the development zone and the Yaoxian county seat. More than 10 million yuan is to be invested in this center. The first phase of project construction is about to be completed, and agricultural by-products processing industries have developed in profusion here. Products such as hot peppers, Sichuan pepper, and bean preparations from this area are well-known in China and abroad, the oily hot pepper line of products from the Weibeiqin Pepper Factory being marketed in distant southeast Asia.

Tourism prospects are promising. Famous historical areas are located close to the zone at Yaowangshan, Yaozhouyao, and Xiang Shan. This birthplace of outstanding persons has brought glory to the place. In ancient times, historical personages such as Sun Simao, Liu Gongqun, Fan Kuan, and Ling Hu Defen lived here. During the modern era, this was the place where the older generation of revolutionaries such as Liu Zhidan fought.

By way of expanding the opening to the outside world, encouraging Chinese and foreign investors, and promoting construction of Tongchuan City's economic development zone, we will institute policies that work and that are more preferential and practical regarding land use, industrial and commercial taxes, the importation of capital, the importation of skilled personnel, and administration. This will provide a fine investment climate for both Chinese and foreign traders to advance the early building of the city's economic and technical development zone.

### Baoji City

93CE0045E Xian SHAANXI RIBAO in Chinese  
15 Sep 92 p 5

[Article: "Longxian's Economic Development Zone—The Longzhou Business and Trade Development Zone Presently Under Construction"]

[Text] The Longxian County CPC Committee and people's government took advantage of the opportunity that construction of the Baozhong railroad provides to lay

out and build the Longzhou Business and Trade Development Zone in Baoji City according to a master plan of the Longxian County seat. This plan has as its goal the construction of a major commercial collection and distribution center at the point where Shaanxi, Gansu, and Ningxia provinces meet. It is an integrated project for Baoji City's building of an industrial and trade city, and it is an "experimental zone for reform of Baoji City's commodity circulation" that the municipal government decided upon. The Longzhou Business and Trade Development Zone extends from the Longxian railroad station on the Baozhong Railroad in the south to the Beihai Bridge in the county seat in the north. It spans the Qian He and goes through the urban area in an east-west direction. It includes one town, two townships, and 10 villages. The development area is to cover an 8 square kilometer area, and it is expected that construction will cover an 80,000 square meter area. Investment will total 80 million yuan. Work has already begun; it will begin to take shape during the Eighth Five-Year Plan; and it will be completed during the Ninth Five-Year Plan.

The Longzhou Business and Trade Development Zone is a multi-functional composite development zone for tertiary industries that emphasizes business and trade. Major planned construction projects number 23, including a commercial building, a materials trade building, a complete industrial products market, an agricultural by-products wholesale market, a labor center market, a construction materials center market, a nationalities restaurant, a posts and telecommunications building, the Construction Bank building, and a bridge across the Qian River that connects with the railroad station. A Chinese-style hotel, a Western-style hotel, a materials storage and transportation station, an apartment building, and business, finance and banking, peace preservation, electricity supply, and water supply service facilities are to be set up in the development zone. The entire development zone is to be run in accordance with the principle of high standards, multiple functions, and complete coordination. Later on a 10 li long street consisting mostly of country fair trade markets and commercial network outlet points will be built a little at a time. The development of business and trade will serve as a turnkey for the full development of tertiary industries including banking and finance, information, science and technology, transportation, communications, and real estate development. Industry and agriculture will be joined, and a large market formed that links together the domestic and the foreign.

Both the city and the county have already put in place a hand-picked, highly efficient, authoritative development zone coordination team and joint command headquarters that will give special attention to special matters and simplify complex matters, providing coordinated services. Planning, designing, land requisitioning, and the razing of structures for first stage construction of the development zone has been completed; more than 10 million yuan has been raised for construction; and 43 organic units, state-owned enterprises, collectives, and

individuals have pre-registered for more than 8,560 cubic meters of commercial buildings. The county CPC committee and the county government have also drawn up special preferential policies for building and doing business in the development zone. On 11 August, an impressive cornerstone laying ceremony was held. All types of economic and technical organizations, social groups and people from all walks of life in China and abroad are heartily welcome here to invest in development, to operate enterprises, to engage in all kinds of business activity, to work at some endeavor, and to strive to make large profits from a small investment of capital.

### Xianyang City

93CE0045F Xian SHAANXI RIBAO in Chinese  
16 Sep 92 p 5

[Article: "Development Zone With an Outstanding Ambience"]

#### [Text] The Airfield Economic Development Zone:

Located at the Xianyang international airfield in Dizhang Town, Weicheng Prefecture, this development zone has a planned area of 5,000 mu. It is the main part of the bonded area of the airfield whose construction in Xianyang City is now in preparation. The development zone is to consist mostly of the development of tertiary industries centering around the airfield, but also devoted to industry, storage facilities, and real estate development.

The development zone has convenient transportation, and the investment climate is superb. In addition to the Xianyang international airfield, a key provincial highway—Jiansong Road—traverses the zone north to south. Downtown Xianyang City is a 30 minute drive westward from the airfield, and the heart of Xian can be reached in 30 minutes via a special highway running east from the airfield.

Dizhang Town lies in the center of the development zone where a wide concrete main artery has been newly built, a fax network for the use of industry put in place, and a programmable telephone opened, permitting direct dialing everywhere in the country. A "peasant playground" consisting of more than 13,000 square meters in the area provides an ideal place for cultural activities, sports, and entertainment. To meet needs at a different level, construction of a medium-sized golf course is being contemplated.

The fine ambience of the development zone has attracted investment and cooperative operation of plants and shops by a number of knowledgeable people. Dizhang Town and the Shaanxi color kinescope plant invested 20 million yuan in the joint operation of the Rainbow Electronics Parts Plant, which has now been built and is in production. It is expected to generate 10 million yuan per year in profits and taxes. A cooperatively built and operated high and

new technology project, the Nongyiqing High Efficiency Liquid Fertilizer Plant, began trial production in August 1992.

#### The Eastern Suburb Economic Development Zone:

This development zone extends westward from Xianyang City to Zhengyang Township in the east. It extends for 20 kilometers along both sides of the Xianyang-Tongchuan Railroad, and belongs to the composite chemical industry development zone that the Xianyang Municipal People's Government established.

Inside the development zone lies 20,000 mu of undeveloped state-owned land. Transportation is readily available. Running north to south for 1 kilometer inside the economic zone is a three lane transportation artery. In the middle of the zone lies the Xianyang-Tongchuan Railroad; to the north is the Xian-Hong Highway; and to the south lies a second class highway that is being built atop the Wei He dike.

The development zone will emphasize development of the chemical industry, and will operate some construction materials, pharmaceutical, and machinery plants as well. It will also engage in real estate development. The development zone has more than 10 enterprises including the Shaanxi Glass Plant, the Shaanxi Flue-Cured Tobacco Re-curing Plant, the 3530 Plant, the Xianyang Coking Plant, The Xianyang Main Chemical Industry Plant, and the Changling Acetylene Plant. These plants produce an output value of more than 200 million yuan per year, generate 456 million yuan in taxes and profits, and earn an average of \$2 million per year in foreign exchange from exports. Eleven projects are in process of construction, in preparation for construction, or in the planning stage. First phase construction of a petroleum additive plant capable of processing 200,000 tons of crude oil per year that was built with an investment of 150 million yuan went into formal production in September 1992. First phase construction of a chemical fiber branch plant in which the Weicheng Prefecture government and the Northwest National Cotton Plant No 1 invested 130 million yuan will be completed, and the plant will go into production in November 1992. Ground will soon be broken and construction will soon begin in the development zone for a vegetable oil refining plant and a twisted cardboard tube plant built with a joint investment of \$4.4 million by the prefecture government and Taiwan's Weifu Corporation.

#### Power Plant Economic and Technical Development Zone:

The Wei He Electric Generating Plant, which towers over Zhengyang Township in Weicheng Prefecture, is a large key electric power enterprise that Shaanxi Province built with an investment of more than 800 million yuan. It occupies an area of more than 1,000 mu. People call it a "nighttime jewel" on the good earth of Shaanxi. The Weicheng Prefecture government decided to use the abundant power that the power plant produces, as well as the convenient transportation all around the plant area

and the subterranean water resources to develop a high and new technology development area.

This development zone covers an area of 2,000 mu. The Zhengyang Township government, one of the "100 stars of Shaanxi" is located in the development zone; the Xianyang-Tongchuan Railroad traverses the zone from east to west; and the Xianhong Highway and the highway atop the Wei He dike are only 3.5 kilometers away from three high speed highways. Service facilities, including a commercial street, have already been built in the development zone, and eight enterprises for food processing and construction materials have been built. In addition, the development zone has taken on a province "spark plan" project, "spark number 1" to promote the breeding of snow peaches for which it has set up a nearly 200 mu experimental base.

#### Preferential Policies To Attract Business

Our prefecture must handle pertinent procedures in a uniform way for all Chinese and foreign traders that come here to invest, instituting a system whereby just a single official signature completes all requirements. Applications from foreign-capitalized enterprises for which all procedures have been completed are to be approved within three days.

2. In the economic development zone, both Chinese and foreign traders may lease tracts of land for continuous tract development for a period of 70 years. Within the period of use, use rights may be transferred for compensation, leased, mortgaged, exchanged, and passed on to heirs according to law.

3. Chinese and foreign traders are permitted to invest in the economic development zone for the purpose of developing real estate.

4. Arrangements are to be made to provide commodity grain rations to those working in the economic development zone who apply for long-term residence.

5. The three kinds of partially or wholly foreign-owned enterprises and other enterprises of various kinds that Chinese and foreign traders operate in this prefecture are to be exempt from the payment of the income tax for six years, and the income tax is to be half for the following six years. Two years after construction and going into production, the "two payments of a single tax" [yishui liangjin 0001 4451 0357 6855] for occupied land may be raised.

6. Chinese or foreign traders who invest (or reinvest) \$100,000, or bring in assets worth \$100,000 may be accorded gratis use rights for 1 mu of land in the development zone, and permitted to develop and use it for between 50 and 70 years.

7. Relatives and friends of overseas Chinese, and compatriots from Hong Kong, Macao, and Taiwan who invest in enterprises in the development zone are to be accorded priority for employment in them. For every

\$100,000 invested, two or three family members or close friends may convert from a "peasant to a nonpeasant" status.

8. Intermediaries who succeed in bringing in capital are to be given a 1 to 3 percent finders fee, the percentage depending on the number of years and the interest rate for the capital obtained. The finders fee is to be exempt from payment of the individual investment regulation tax or the individual income tax.

9. Independent operators coming to the prefecture from elsewhere in China may complete pertinent operating procedures upon presentation of their identity documents. Market vendor stand fees and management fees are to be reduced between 30 and 50 percent for the first two years. Industrial and commercial units are to help such operators find a place to live, place their children in day-care centers, enroll them in school, and solve business problems.

10. Scientific research personnel who make an outstanding contribution are to receive 20 percent of after-tax profits for one to three years from research achievements that are translated into economically profitable commodities. A large award is to be made for exceptionally great contributions.

#### Jingyang County

93CE0045G Xian SHAANXI RIBAO in Chinese  
17 Sep 92 p 2

[Article: "Make a Broad Appeal to Many Traders To Develop a New World"]

[Text] The planning area for Jingyang Economic and Technical Development zone covers 9 square kilometers and is composed of the Heshi and Yongle sub-zones. The Heshi development zone is located in the eastern suburbs of the county seat 10 kilometers from the Xianyang Airfield. The area for development and construction covers 3 square kilometers. Its attractiveness as a place to make money and accumulate wealth has gained the attention of informed people both in China and abroad. The waters of the Jing He flow to the south of the zone; the Jinghui Channel cross it east to west; and the Xiansong Highway traverses it north to south. A new park has been built here mostly for knowledge-intensive new technology research and development institutions and high and new technology pioneering centers. A light industry zone, an electronics industry industrial zone, an industrial collection and distribution zone, and a business and trade street have taken preliminary shape following the location of an enamel-insulated wire production plant here. The Yongle Development Zone is located at Yongledian, a major town in central Shaanxi. Its development and construction area covers 6 square kilometers. It is 24 kilometers away from the provincial capital at Xian, and both the Xianyang-Tongchuan Railroad and the Xia-Tongchuan first class highway cross it in the same direction. The Jinghe and the Yongle railroad stations are at opposite ends of the development

zone, the railroad forming a "golden waistband" that adorns the economy. Located inside the zone are four technical and vocational technical schools and eight research institutions where human talent is plentiful and science and technology advanced. The finest brick pagoda in all China—the Ming Dynasty Chongwen Pagoda—and towers used for mapping sites where Chinese civilization originated can be seen towering north and south. This is a land of warm sunshine and gentle breezes. Looking out from a high point, one can see the ancient city of Xian, Xianyang, vast expanses of fertile land stretching as far as the eye can see, the meandering Jing He, and the waters of the Wei. One feels relaxed and at ease.

In the development zone, both the weather and the terrain are fine; conditions for development are superb. It has a temperate zone climate; the land is fertile and grain plentiful; meat, eggs, milk, fish, rice, and vegetables are abundant; goods are fine and prices are cheap. The provincial fruit products processing plant has built large cold storage facilities in the zone that supply fresh fruits and vegetables year-round. The ground water is of premium quality. It is neutral tending toward softness, and the area has abundant water. Within the zone, more and more infrastructure in the form of roads, electric power, water supply, and graded land is being built every day. A water supply and drainage system has been built; the supply of electricity is ample; communications are advanced; and a roadways framework has taken shape. The land is flat. Water is available from the Jin He in the south and from the Beizhong in the north, and the Cuoe Shan provide rock. Building materials are plentiful. The area is richly endowed by nature.

At the present time, the development zone has more than 80 Sino-foreign joint venture enterprises, and national, provincial, municipal, and county enterprises producing an output value of more than 200 million yuan per year. It has entered into long-term friendly cooperative relationships with more than 20 institutions of higher education and scientific research units both inside and outside the province; and it has established economic contacts with nine countries and territories. The Shuang'an Electric Instruments Corporation—a Sino-Japanese joint venture—has formally gone into production; and a Sino-Thai joint venture, an electrolytic manganese production line, and the Taiwan Qilin Corporation's scorpion poison and serial products cooperation project will be built in the zone in the near future. The Hong Kong Golden Shield Corporation is about to invest 600 million renmibi in the development zone to build a 300,000 KV thermal power plant as part of the formation of the Jingyang industrial community and a commercial center. During the Eighth Five-Year Plan, the development area will become an industrially developed, commercially thriving, environmentally comfortable, socially sophisticated new type city. If one calls Jingyang County the "heartland" of the Shaanxi Plain, then the development zone is a developer's ideal "gold panning" site.

#### Come to Jingyang If You Want To See a Place To Pan for Gold

Its geographical location is superb. Jingyang County is 780 square kilometers in area, and it is located in the industrially-intensive "golden triangle" made up of the three major industrial cities of Xian, Xianyang, and Tongchuan. It is contiguous with both the cities of Xian and Xiayang; the terrain is flat throughout the county; the land is fertile; the climate is temperate; both ditches and wells provide irrigation; a crop can be ensured despite drought or flooding; and it enjoys a reputation as the "heartland" of Shaanxi.

Transportation and communications fan out in all directions. The Xianyang International Airport is nearby; both the Xianyang-Tongchuan Railroad and the Xian-Tongchuan first class highway traverse the county from north to south; and the Xiansong-Sanning national highways connects it east and west. Local highways crisscross the county, asphalt roads connecting one township with another, and graveled roads connecting one village with another. It has a programmable telephone exchange and modern post and telecommunications facilities including facsimile and radio transmission. Direct dialing of major cities inside and outside China is possible.

Water and electricity supplies are excellent. Three rivers flow through the area—the Jing He, the Yegu He, and the Qing He. Totaling 157 kilometers in length, they have an average annual runoff of 28.05 million cubic meters of water. The world renowned Jinghui Channel flows for 81 kilometers within the area. Underground water resources are abundant. In the central plains area, 78 percent of the underground water lies 10 meters down. Nearby lies the Wei He power generating plant, and the county has seven transformer stations able to supply 120,000 KVA. Every village has electricity, and work is progressing feverishly on the first Jinghui Channel electric power station, a joint venture with the Jinghui Channel Administration.

Mineral resources are abundant. Limestone, kaolin, marble, refractory clay, aluminum, iron, and coal reserves are plentiful. Limestone reserves total approximately 59.9 billion cubic meters, gravel 26.95 million tons, kaolin 21.5 million tons, marble, 10 million cubic meters, and refractory clay, 2.4 million tons. Quality is the finest, and extraction and movement is convenient.

Supplies of agricultural by-products are ample. Plentiful production of wheat, corn, and cotton make this county one of the country's major grain and cotton producing areas. Annual grain output is 200,000 tons, and cotton output is 10,000 tons. This provides abundant resources for both military and civilian needs, as well as for grain and cotton processing industries. In addition to grain and cotton, other agricultural crops that can be grown here include more than 30 different varieties of fruits, tobacco, and vegetables. Annual vegetable production totals more than 100,000 tons. The area has plentiful livestock animals and poultry. The county is a national

and provincial base county for milk goats and chickens raised in coops. The county's meat output totals 6,632 tons per year, milk output totals 13,691 tons, and egg production totals 11,132 tons.

County and township industrial enterprises are beginning to take shape. County and township industrial enterprises producing cement, cotton yarn, cotton cloth, dairy products, enamel-insulated wire, machine-made paper, farm machinery, decorative construction materials as the main line of hot-selling products number 115 with fixed assets of more than 200 million yuan. The county has four provincial-level advanced enterprises producing 12 kinds of premium products meeting national ministry and provincial standards. These include Jingyang Brand 425R type cement and 35 gram glossy paper, both of which have won national silver awards for quality, Jingta Brand milk powder, glossy ganoderma [Ganoderma lucidum] tonic tea, complete scorpion wine, and canned goods. At the 1992 Hong Kong International Food Fair, they won a gold award, a silver award, and special awards.

Cultural, educational, and health facilities are complete. The county has six technical secondary schools, technical schools and vocational schools, 36 ordinary middle schools, and two adult education schools. This county has been named a nationally advanced county in basic education and the "land of track and field events." The county has one scientific research unit and one farm cadre school. It has seven county-level medical treatment units, five sector hospitals, and 14 township hospitals. A county broadcast television relay station and an FM radio station are about to begin broadcasting.

The county has a long history and a developed culture. The ruins of the mouth of the channel, the ancient watercourse, and the great dam that impeded the river of the Kingdom of Zheng Channel, the construction of which was begun in 246 B.C., and large numbers of stone inscriptions remain to this day. This area has been called a natural historical museum of water conservancy in China. The Chongwen Pagoda, which was built during the Ming Dynasty has a distinctive design and an ingenious structure. Consisting of 13 stories, it is the finest brick pagoda in all China. The tomb of the Dezong emperor of the Tang Dynasty, Li Shi, is one of the main relics receiving provincial protection, and the stone inscriptions of Weng Zhong and Ji Ma remain lifelike. The dedication to the Anwu youth training class that Comrade Mao Zedong wrote in his own hand—a cultural relic of the revolution—has been preserved intact to the present day. The pines and cypresses on the grounds of the tomb of the water conservancy grand master, Li Yizhi, remain green, and the headwork of the Jihui channel, whose construction Mr. Li supervised, is a magnificent sight to which tourists flock. A vacation village at Zhangjiashan at the head of the Jinghui Channel is in a nascent state, and the scenic fishing site at the Chongwen Pagoda is being developed. These will

provide a fine tourist environment for Chinese and foreign guests who come here to invest or to see the sights.

### **Yongshou County**

*93CE0045H Xian SHAANXI RIBAO in Chinese  
16 Sep 92 p 8*

[Article: "Brief Introduction to the Development Zone"]

[Text] The Yongshou County development zone in Shaanxi Province is made up of the Northern Natural Resources Development Zone, the County Seat Composite Economic Development Zone, and the "Commerce and Trade Corridor." The area for development during the initial period is 2,000 mu, all of which is located along national highway 312.

The Composite Economic Development Zone is located north of the county seat. It is a "new city outside the city" in the county seat area. It is 97 kilometers from Xian, and 76 kilometers from the Xianyang International Airport. One can travel in any direction via Xian and the Xianyang Railroad. At the present time, infrastructure meets water supply, electric power, highway, communications, and land leveling requirements. The investment climate is very good. The entire development zone is divided by function into the following areas: an industrial area, a business and trade area, a living and welfare services area, and a warehouse area.

The Northern Natural Resources Development Zone is located north of the county seat. The development zone covers an area totaling 160 square kilometers. It is divided by function into a forest products processing sub-zone, a ceramic clay processing sub-zone, a Chinese medicinal herb development sub-zone, a hunting sub-zone, a summer vacation mountain villa, and a vacation village.

The "Trade Corridor" is a 5-kilometer-long commercial corridor set up in the county seat segment of Xilan Road. Plans call for the building of markets at many sites along both sides of the road.

In the development zone, apartment houses, a high class guesthouse, an amusement center, and services facilities are to be constructed. An administrative control organization under unified leadership, a one-stop work style, and "integrated" complete services are to be features of the internal control system. Investment procedures are to be simple.

The Yongshou County development zone warmly welcomes informed people from China and abroad to invest in, cooperate in, and develop economic and trade relations.

### **Preferential Policies**

The following preferential policies have been drafted for the purpose of attracting Chinese and foreign traders to invest in, to operate enterprises in, and to conduct

economic and technical cooperation with the county's composite economic development zone:

### 1. Land Use

All foreign traders who invest in the operation of enterprises that produce products for export, advanced technology enterprises, or energy, transportation and public utilities will not only enjoy the preferential policies that the state prescribes, but will also be exempted from payment of the development zone's land use fees. All other industries in whose operation foreign traders invest are to be exempted from payment of land use fees during the period of construction. Once the plant goes into production, 50 percent of the nationally prescribed tax will be collected.

A preferential price will be authorized for land requisitioned for domestically capitalized enterprises in the development zone. Eighty percent of the prescribed national tax will be collected for takeovers of cultivated land.

Up until March 1993, the land requisition price for units investing in the operation of enterprises in the development zone for the first time will be reduced 10 to 20 percent. Foreign traders and investors from outside the county who lease land for the operation of enterprises or contract for the development of tracts in the development zone may do so for from 50 to 70 years. During this use period, they may transfer, lease, mortgage, exchange, and pass the use rights along to heirs according to law.

### 2. Taxation Policy

Enterprises that form joint ventures, pool resources, or invest their own funds in the development zone are to follow the principle of "distribution first and taxation later" with regard to profits. Clients may recover locally paid income taxes.

Three kinds of partially or wholly foreign-owned enterprises operating in the development zone are exempt from the income tax for 10 years. For the approved period of operation, they are exempt from local income taxes, city real estate taxes, and payments into the national key construction fund. Those engage in other than transportation industries are exempt from the vehicle and ship use licensing tax.

All who invest in the operation of scientific and technical enterprises in the development zone, including civilian-run scientific research institutions, are exempted from the income tax for six years from the day they begin business. After expiration of this period, should they find production and business difficult, upon ratification by the appropriate authorities, they may be further exempted from payment of 50 percent of the income tax for a one to three year period. New state-owned, collective, individual, and private enterprises are exempt from the income tax for three years from the day they begin business.

All income from the transfer of technology or technical services in the development zone that is less than 300,000 yuan per year is exempted from the income tax. Income received from the transfer of research results of entrepreneurial units and individuals is exempt from the business tax.

All awards that intermediaries receive for bringing projects, skilled personnel, technology, and capital into the development zone are exempt without exception from the payment of the individual income readjustment tax.

A zero tax rate is to be applied for the investment orientation regulation tax on foreign trader investment in the building of plant buildings and living facilities, including worker housing in conjunction with industry in the development zone.

### 3. Importation of Skilled Personnel

All specialized technical personnel that an enterprise imports are to receive wages at the fluctuating grade 1 rate from the date they report for work. After three years, they may be made a permanent grade 1 and moved up an additional floating grade. An even more preferential special policy may be applied as specific individual circumstances warrant for special personnel for which the enterprise has an urgent need. Specially hired technical personnel may be paid at a higher rate than the position calls for, a bonus paid them amounting to 5 percent of all new profit for the year resulting from the skills they provided. Those producing additional taxes and profits of 1 million yuan and more are to be issued a merit citation and recorded in the county annals. In addition, personnel who are instrumental in bringing in skilled persons are to receive a reward amounting to 1 percent of the annual taxes and profits that the persons produced for the enterprise.

Technical personnel relieved of their former official position in order to work in the development zone are to retain their former status, and their academic and technical accreditation. Their years of employment are to be calculated continuously, and their family members and children may accompany their transfer.

Technical personnel who assist the development zone with technical problems for a short period of time are to receive a living allowance and a technical subsidy of 300 to 600 yuan per month per person. Those who work on Sunday and holidays to provide technical services are to be paid a special technical services fee. Those making conspicuous contributions are to be substantially rewarded.

Graduates of universities and secondary technical schools who come to the development zone are to enjoy the wages of permanent workers at their specific grade. In cases where their career achievements have been outstanding, they may be given a 1 to 2 grade higher wage as well as a substantial bonus.

All entrepreneurs and technical personnel who set up, lead and operate joint contract enterprises in the development zone whose production or research and development products are deemed to be new products at the provincial level or above, or premium products at the provincial level and above, and from which the net profit is more than 500,000 yuan are to be paid a monthly salary of no less than 500 yuan, a bonus of 50,000 yuan, and be provided with a 70 square meter three room dwelling. When the amount of profit is more than 1 million yuan per year, in addition to the foregoing award, they are to be additionally rewarded with one high quality small sedan, and title to the dwelling and sedan awarded them is to belong to them.

#### 4. Importation of Capital

Those who bring in or obtain capital without paying for it are to be given a bonus amounting to 10 percent of the total capital.

Those who bring in or obtain capital at an interest rate slightly higher than the bank loan interest rate for the same period, and to be used for a period of more than one-half but less than one year are to be paid a bonus of 1 percent of the total amount. When the use period is for less than two years but one year or more, they are to receive a bonus of 1.5 percent of the total. When the use period is more than two years, they are to be paid a bonus of 2 percent of the total. When the use period is five years or more, they are to be paid a bonus of 3 percent of the total; and when the use period is 10 years or more, they are to receive a bonus of 4 percent of the total. In addition, those who bring in capital at less than the bank loan interest rate for the same period are to be given a bonus amounting to the difference between the capital interest rate and the bank loan interest rate for the same period.

Banks that obtain a line of credit (including funds) outside plan are to receive a bonus amounting to 1 percent of the line of credit (including funds). Those who import complete plants and spare parts (at their converted value) for production projects that are used without payment are to be awarded a bonus commensurate with the amount that would otherwise have been paid.

Those who bring in or obtain \$50,000 or more of foreign capital are not only to be rewarded in accordance with the foregoing provisions, but two of their children meeting requirements may have their status change from "peasant to nonpeasant" and be given employment.

Personnel in administrative organizations who perform these functions are not to enjoy these rewards.

#### 5. Project Imports

Anyone who imports a high and new technology, project, or scientific research achievement into the development zone is to receive a generous reward based on returns obtained.

When investment in a project yields a profit and payment of taxes into the treasury amounting to 20 million yuan or more, a one-time award of 20 percent of the profit and taxes is to be made; when the amount is between 10 million and 20 million yuan, a one-time award of 15 percent of the profit and taxes is to be made; when the amount is between 5 million yuan and 10 million yuan, a one-time award of 10 percent of the profit and taxes is to be made; when the amount is between 3 and 5 million yuan, a one-time award of 5 percent of the profit and taxes is to be made; when the amount is between 1 million and 3 million yuan, a one-time award of 3 percent of the profit and taxes is to be made; and when the amount is less than 1 million yuan, a one-time award of 2 percent of the profit and taxes is to be made.

When an imported project affects a national patent, so long as both parties reach an agreement not to transfer rights further, between 1,000 and 100,000 yuan may be paid as patent compensation.

When a decision is made to go ahead with a project following examination and evaluation of information provided about an industrial process, a one-time award of from 500 to 20,000 yuan may be made by the unit undertaking the project, the amount depending on the amount of profit and taxes that the project provides.

When the county's industry gains marked economic returns from the importation of scientific and technical achievements from a university or scientific research unit, a reward of 1 percent of annual receipts therefrom is to be made to those responsible for the import. When market returns are gained in farming, forestry, animal husbandry, sideline occupations, or the fishing industry, a reward commensurate with the size of the return is to be made.

Thirty percent of returns from the production of new products that institutions of higher education, research institutes, or large- and medium- sized enterprises research and develop jointly with Yongshou County may be withheld as a cooperation compensation fund, the fund used to provide a generous bonus to personnel who made a contribution.

Enterprises, groups, and individuals who imported a new project, new products, or new technology, or who helped facilitate a jointly managed cooperative project may be paid an award of 10 percent of resulting additional profit beginning three years after the project goes into production.

#### 6. Distribution of Benefits

In the distribution of returns from enterprises that another jurisdiction operates jointly with Yongshou County, the other jurisdiction is to receive 15 percent more than the percentage of its investment, and losses are to be shared according to the percentage each party has invested. The products and profits of enterprises set up by a sole proprietor from outside the county alone

and that the sole proprietor operates independently are to be distributed by the sole proprietor.

The party from outside the county is to receive 30 percent more than the percentage of his investment of the retained amount of foreign exchange earnings from exports of joint enterprises. If the party from outside the county is responsible for 70 percent or more of the investment, all of the retained foreign exchange earnings revert to it. When a jurisdiction outside the county provides semi-manufactures, primary products or raw materials to which processing in Yongshou County adds 20 percent or more in value, the final product is to be regarded as a product from a joint investment project, the division of foreign exchange to be made in accordance with the aforesated method. That portion of foreign exchange apportioned to the other party is to be under control of that party.

When 70 percent or more of the total investment in a jointly operated development project in the development zone derives from a party from outside the county, all after-tax profits are to revert to the party from outside the county in the first year, and for five years, the developments zone party must provide 50 percent of profits to the party from outside the county.

#### 7. Other Preferences

All units and individual that operate enterprises in the development zone are to be responsible to the development zone management committee. A joint office for centralized examination and approval is to be set up, and an examination and approval system instituted whereby only a single signature is required, all examination and approval procedures to be completed within seven days.

Fees are to be collected for the water and electric power, transportation, and communications that development zone enterprises require for production, collections to be made according to the standards that apply to state-owned enterprises in the county. Unless specifically authorized by the county people's government, no administrative department or organization may collect a "management fee."

Any government, enterprise or unit from outside the county requiring the establishment of an operating office in the development zone is to be accorded every possible convenience.

All persons possessing an agricultural household registration who capitalize the operation of secondary or tertiary industries in the development zone may be issued a "blue cover household registration booklet," and enjoy the same perquisites as city and town residents.

Law enforcement units, including public security and judicial units, are to exercise to the fullest their escort and convoy roles in the development zone, zealously support the development zone's economic proposals, ensure full and smooth enforcement of the foregoing

preferential policies, and create a fine external environment for traders from within, and out of, the county to operate enterprises, using their authority to investigate and punish those who practice extortion and blackmail, and who infringe the legitimate rights of enterprises thereby disturbing the economic construction and the social order of the development zone.

Composite Economic Development Zone Management Committee, Yongshou County, Shaanxi Province. 22 August 1992.

#### FINANCE, BANKING

##### Financial Institutions Support S&T Projects

93CE0050B Beijing JINRONG SHIBAO  
in Chinese 29 Sep 92 p 1

[Article by own correspondent Shi Xiaofeng (0670 1420 7685) and reporter Sun Lingyan (1327 0407 3601): "Finance, the Lever That Transforms Scientific and Technological Achievements Into Productive Forces"]

[Text] In the last few years, China's provinces and relevant departments have annually registered more than 20,000 items as scientific and technological [S&T] achievements. Last year, they amounted to 32,000 items, however, only about 30 percent of these can actually be transformed into productive forces and disseminated for actual application in production. On looking for the reason for this phenomenon, we find that the serious expenditure involved in the said transformations is not a sufficiently important reason to constitute one of the causes. Necessary expenditure in the research, development, and production links are more or less at the 1:10 to 100 ratio. For the research units it would be a very difficult matter to come up with that much money for development, and in addition they would have to take quite a big risk. As to the enterprises, it would generally take them three to five years until they can transform an S&T achievement until it can be introduced into the market. A large number of such achievements are therefore pigeonholed forever, and many scientific capabilities are never transformed into productive forces for the additional strengthening of the country.

##### New Capabilities

At this time, some clear-sighted persons of the country's financial circles had begun to focus their attention on this issue. In 1984, the Industry and Commerce Bank of China instituted loans for the development of S&T achievements, in order to promote their practical application. The bank's president, Zhang Xiao [1728 5235], said that since the Industry and Commerce Bank wants to support the industrial structure and the adjustment of products, it has to support the transformation and development of S&T achievements. Although this area is of rather indistinct dimensions and involves risk-taking, it is also like an entrance to an infinite new landscape.

The emergence of this business of granting S&T loans signifies that the bank has started to extend its financing methods into new fields in which S&T play important roles, namely the fields of research and manufacture of products and their development, indeed a shift of breakthrough dimensions which will provide new capabilities.

The initiation by the Industry and Commerce Bank of these new technology development loans, electronics development loans, loans for the transformation from military to civilian production, loans for "Spark Plan" development, and new high-tech development loans has been warmly welcomed by the Science and Technology Commission, the government, and by the enterprises, who felt it as if life-giving water was channeled to the relevant science enterprises. Up to the end of last year, the Industry and Commerce Bank has granted S&T loans to the amount of over 1.4 billion yuan, which has promoted the development of over 30,000 projects; 2,115 of these have attained advanced international standards. Integration of the trinity of S&T, finance, and economy is the most advantageous choice to promote an upswing in China's economy. A powerful evidence of this is the development of the "electronics" street in Beijing's Zhongguancun district. The banks have on different occasions invested over 800 million yuan of credit funds in support of new high-tech companies, such as the Beida New Technology Corporation, Stone, Pioneer, Jinghai, Lianxiang, and other companies, steering a course of granting loans, developing, operating factories, grouping together of enterprises, and maintaining an orientation toward foreign trade.

When the Beijing Vinylon Plant, manufacturing vinylon fabric, which at one time was selling extremely well, became overstocked and faced the danger of having to close down, the Industry and Commerce Bank loaned the plant 1.8 million yuan to support the plant in its scheme to develop "high-strength, high-molding-capacity polyvinyl fiber," a product that filled a vacuum in Chinese production. The plant director said most gratefully: if an enterprise wants to gain a firm foothold in the market, it has to use new technology and to come up continuously with new products. It is extremely common with China's old enterprises that when a product sells well, everybody rushes to produce it. Only when there is suddenly a change in the market, they will start to think of developing new products. This kind of production and technology structure in enterprises with its very slow response to changes has been retarding and obstructing any objective transformation in the industrial structure. Therefore, the S&T development loans, with the enlightened guidance that they gave, have revealed themselves to indeed have promoted the adjustment of the industrial structure.

#### A Benign Cycle

As finance supported the transformation of S & T achievements, S & T also promoted a benign cycle for bank funds.

In the 1970's, banks began to support the light industries, and in 1980 they invested large sums supporting enterprises that manufactured sewing machines, watches, and bicycles, but within not even three years the large development was followed by large-scale overstocked positions. Immediately following, the support went to the technological transformation of manufacturers of black-and-white TV sets, radios, electric fans, and other domestic electrical appliances. When this fashion had passed, these products again became unsaleable by 1986. To satisfy higher-level demands by the public, a third round of support began in favor of color TV sets, refrigerators, and washing machines, and, after a few years of slump of demand, began to appear.

These three rounds of developments were highly enlightening for our financial circles:

It is important to pay attention to the precursory role of S&T for production, consumption and construction, as otherwise there is bound to come a vicious cycle of investments and development, and of overstocking and stagnant sales. In actual fact, the day when products from many of the technical transformation and capital construction projects, which were supported by bank loans, went on the market was also the time when these items were already overstocked. Without a basis in S&T and without its precursory effect, products will not be able to occupy a market for a very long time, the trend may then be one of a large upswing and a large downturn.

In the course of granting S&T development loans, the Industry and Commerce Bank will therefore always maintain a sober evaluation of the situation; the projects it will support will either be filling a vacuum in the market or be of an advanced level, domestically and internationally, promising outstanding economic returns. Many enterprises, while manufacturing readily saleable products, will at the same time, develop an even more advanced product, in order to follow any shift in the market at any time. The banks themselves will gain excellent results from this kind of a policy.

At the present time, the economy of the world shows three large characteristics: first, labor-intensive industries are quickly shifting to capital-intensive industries; second, technological progress is accelerating rapidly; three, consumption patterns are tending to become identical, with competition becoming fiercer. In this overall situation, our enterprises have no other choice but to rapidly raise the technological level in the enterprises and to meet the challenge by novelty of products and high quality.

Presently, the granting of S&T loans, which is an important component of the reform of the S&T system, has already become an important source of capital for the transformation of S&T achievements and the main support for the transformation into productive forces of

S&T projects. Only those S&T projects that have realized relevant S&T plans of the State Science and Technology Commission, with joint efforts from financial circles and S&T circles, have already amounted to over 3 billion yuan. The projects that had been supported are spread all over the country. Sung Jian (1345 0256), minister in charge of the State Science and Technology Commission, had high praise for them: "Finance and S&T circles have done outstanding work with regard to S&T loans, which had been provided to support the infusion of S&T into the economy and which have injected new capabilities."

**Economist on Market Economy, Capital Flow**  
93CE00504 Beijing JINRONG SHIBAO in Chinese  
21 Sep 92 p 3

[Article by Zeng Kanglin (2582 1660 7207): "On Socialist Market Economy" (7)—Market Economy and Capital Flow"]

[Text] Proposing market economy is a necessary choice for China's economic development, because it is also a lesson learned from positive experiences in foreign countries! Market economy is an economic system chosen by us, and not to be regarded as a kind of operational mechanism! The market economy system does not preclude planned regulation because we are presently still lacking the perfect environment and conditions for free competition; we still need government intervention and planned regulation! At the present stage, practicing market economy is desirable, but market finance is undesirable! Fullest consideration must be given to the effect on matters of financing by the market orientation in our reform!

**Proposing Market Economy, Not an Accidental Matter**

Recently, more and more people have been in favor of "socialist market economy," considering it to be advancement and development beyond "planned commodity economy," a deepening of our insight into socialist economy, a lifting of the socialist economy to the greatest heights, and even making an important contribution to the scientific theory of socialism. To this kind of perception we may well add further evaluation. What we should point out here is that proposing market economy was not at all an accidental matter:

1) When some time ago, quite a few people suggested a "market orientation" for China's reform of the economic structure, even though "market orientation" was understood in different ways, there was one thing definite about it: namely that it was the comprehensive application of the market mechanism to the organization of economic life. At that time, to avoid "leftist" molestations (possibly even criticism), to avoid being unfairly stuck with the shameful label of proposing that "market economy abolish the public ownership system, reject the leadership of the communist party, reject the socialist system, and practice capitalism," some people adopted a

somewhat reserved and roundabout way of talking about it. Only after Comrade Deng Xiaoping set forth: "Planned economy is not the same as socialism, capitalism, too, has planning; market economy is not the same as capitalism, socialism also wants the market element," was the obstacle removed of having "market economy" labeled either capitalist or socialist, and as consequence people felt reassured that it was in order to talk about "market economy."

2) The realities of the situation forced us to reflect on the current situation and seek new alternatives. Although the great achievements during the 10-odd years of reform and opening up to the outside world have impressed the whole world, the movement has also left us with quite a few questions that call for deep thought: Right from the start we used to say that revitalizing the enterprises would be the central link in the reform of the economic structure. "We want the enterprises to truly become relatively independent economic entities, to become socialist commodity producers and dealers with autonomy in their business operations, and take responsibility for profits and losses, to acquire the capability for self-transformation and self-development, and to become legal persons with certain rights and obligations of their own." However, almost ten years have passed, and we ask why there exists this strong contrast between what has actually happened with the enterprises and what had been pledged in the relevant documents? During the last few years, we have, from time to time, put forward the demand to revitalize the large- and medium-sized enterprises, and also, from time to time, the demand for competent management of the large- and medium-sized enterprises, and even suggested certain measures to achieve "revitalization" and "competent management"; but why, during all this time, has it never been possible to implement these measures? Not only was implementation impossible to accomplish, but the losses incurred by state-run enterprises, especially large- and medium-sized enterprises, became increasingly serious, and the extent of unprofitability applies to two-thirds of them (comprising overt and covert losses), with these losses reaching staggering proportions. On the other hand, village and township enterprises, enterprises of the collective ownership system, of the private economy, and those run by individual entrepreneurs are all profitable. Why is "ownership by the whole people worse off than collective ownership, and collective ownership worse off than individual entrepreneurship"? During the last few years, we have, year after year, expounded "quantitative control, structural adjustment," but why is it that year after year it has been impossible to control quantity and adjust structure? During the last few years, large amounts of state assets have drained away, but some people were only out to grab projects, to contend for investments, and no one was responsible for the enterprise assets being drained away. How did this situation come about: any thinking person will be forced to look for the causes of this in the system, in management, and in the operational mechanism.

3) There is one successful example to be found in a foreign country. After World War II, the economy of Federal Germany had practically collapsed, but during the 30-odd years after the 1950's, the German economy once more developed rapidly. Most Germans attribute the joint achievement of their "economic miracle" to the economic system which they had chosen for postwar Germany, namely, the "social market economy." Someone in China had written in a similar vein: "The economic upsurge of a country does not critically depend on the amount of its resources, capital, and manpower, but on the rational method and efficiency of its organization. Formation of a modern, rational organizational structure of its economy, society, and government administration is the key to success in any reform." We cannot say that all that we have to do about propounding market economy is merely draw lessons from the experiences of foreign countries, but we have to admit that the foreign experiences are having an influence on China's reform of the economic structure, an influence which cannot be ignored.

#### Scientific Standards Required in the Definition of Market Economy

Some people now refer to "market economy" as "market economy system," and some call it an operational mechanism. The two different expressions reflect a disparity in perception. Any attempt to arrive at scientific criteria for the meaning of market economy must therefore begin with a discussion of these two concepts: the "economic system" and the "operational mechanism." In simple words, the economic system is the concrete form adopted by social economic relations, or, we may say, it is the concretization of the social economic institutions within the economic relations. It normalizes the relations between government and enterprises-individuals, between enterprises and individuals, as well as the mutual relations between enterprises themselves and the mutual relations between the individuals themselves. It normalizes according to whatever the principles are according to which relations between government and enterprises-individuals are established, and according to whatever the principles are according to which conflicts between enterprises and individuals, as well as between these groups among themselves, should be settled, etc. Operational mechanism, on the other hand, refers to the process, form, and channel of interaction between things. Government, enterprises, and individuals are all component members of society, they are bound to interact in social activities, and they will also, through certain forms and channels, act out their established economic relations. In this sense, the operational mechanism is something contained inside the economic system, which explains that they are different and yet linked. To decide whether we must then regard the concept of "market economy" as an economic system or as an operational mechanism, we must first of all examine the core content of market economy. We believe the core content of market economy is the mechanism of competition. Only where there is competition, there is vitality; only where there is vitality, there

is efficiency; and only where there is efficiency, there will be economic returns. We have earlier listed the several questions which deserve our deep thought, and, generally speaking, they lack efficiency and economic returns. To remedy this situation, we must reform the economic system. If we allow the function of the market to be stimulating mechanism and restraining mechanism with regard to government, enterprises, and individuals, or if we formulate that it will be done "according to the principles of the market," market economy will then indeed be the economic system chosen by us. If we regard it merely as an operational mechanism, we lower its status by one level, because only after having established economic relations can there be talk of how these relations will operate. If we regard market economy as a kind of economic relation, we will still have to differentiate between planned economy and planned regulation, market economy and market regulation. Planned economy and market economy refer to market systems, planned regulation and market regulation refer to operational mechanisms. In the past, we spoke of an integration of planned economy with market regulation, which is actually mixing together two issues on different levels and putting them on a par. In the past, we practiced a system of planned economy, with the intention of establishing the economic relations of government, enterprises, and individuals in reliance on mandatory planning or guidance planning, to normalize their conduct, which actually means allowing the plan function to be stimulating mechanism and restraining mechanism between them. Practice has made it clear that this is not ideal, and, as we see it now, it is not suited to the commodity economy of our modernization undertaking, and therefore has to be reformed.

#### Market Economy Does Not Preclude Planned Regulation

If we affirm that market economy is to be the new economic system that China should select, how are we then to evaluate the system of planned commodity economy. Some say, the meaning of "planned commodity economy" is not clearly determined. For a long time, people have argued how to integrate planned economy with market regulation, and have seen this as a troublesome problem resulting from the indistinct concept of planned commodity economy. On the other hand, the meaning of market economy is extremely lucid and definite, and to seek a solution as to how to integrate the two (planned economy and market regulation) would require no great additional mental effort. Others believe, "the term 'planned commodity economy' does not clearly show the relationship of 'material as the primary and consciousness as the secondary.' Actually, commodity economy has its own spontaneity, it is impossible for it to be planned." We do not intend to comment further on this matter here. What has to be pointed out here is: market economy does not preclude planned regulation:

- 1) Contemporary commodity economy requires two hands in its development, namely a "visible hand" and

an "invisible hand," and the "visible hand" generally develops in society's organs of authority—in the body of the government; through its plan, the government must intervene in the economic life. We resent too much or unnecessary government intervention, but we cannot say that government intervention is absolutely undesirable. The promulgation of various laws and regulations and their implementation is the concentrated manifestation of government intervention, and establishing order in the market economy indeed requires formulation and perfection of various laws and regulations.

2) Contemporary commodity economy requires for its development a strengthening of macroeconomic control, i.e. it demands an approximate equilibrium between total supply and total demand, and to get the equilibrium between total supply and total demand would be impossible without "overall quantitative control and structural adjustment," in other words, it requires the guidance of a medium-term and long-term plan and the restraints of a short-term plan.

3) Planned regulation is not only control by quantitative norms to reflect mandatory planning and guidance planning, it must also reflect the directions of state policies, such as those applying to interest rates, exchange rates, investments, and the state's guidance in its import-export policy.

4) Developed countries and developing countries abroad also include plans in their market economy systems, and they have not abolished the regulatory functions of planning.

Speaking with a view to raising efficiency and increasing economic returns, we simply have to establish the market economy system, allowing the mechanism of competition to spread to every aspect of economic life, but we must also realize that the realities of the situation in China, or, we may say, the present national conditions present many facets which are not amenable to competition:

1) Due to unequal developments in the various local economies and the resulting large disparities, equality in the material foundation for free competition does not exist for local districts.

2) Due to its vast population and great population densities, the country lacks a broad and unconstrained environment for free competition.

3) Due to the low quality of personnel, enterprising spirit is somewhat lacking among them, and there is no good mental basis for free competition.

4) Due to the fact that a large proportion of the economy is owned by the state, there is a lack of rigid restraints and little profit motivation conducive to free competition.

5) Due to the imperfect legal system, there are no norms that would be a needed restraining element for free competition.

6) Due to the existence of "power economics" and "personal-relationship economics," there is a lack of openness, fairness, and impartiality conducive to free competition.

Efforts must be made to amend all those factors which are not amenable to competition, but it will not be possible to change some of these factors within a short time. In a certain sense, it is therefore still necessary to have a larger measure of intervention by the government, as otherwise the country's economic life may become one of instability and of uncoordinated activities. Among the government's measures of intervention, planned regulation is indispensable.

#### **Development of a Financial Market Is Desirable, Market Finance Is Undesirable**

After proposing "market economy," some again put forward a demand for "market finance," though we don't know what this is to comprise. If it should mean a tendency toward more liberalization in matters of finance, it would not be suited to China's national condition at this stage. China is a developing country, and in financial matters even greater stress must be placed on macroeconomic control during the period of development; any other way would be detrimental to the stability of commodity prices, to distribution, regulation, and efficiency in the industrial structure, and to any improvement of economic returns. If we would practice market finance, it would mean relaxing controls over interest rates and exchange rates, and allowing supply and demand of monetary funds to determine the value of monetary funds. If that were done under conditions of shortage of monetary funds, it would merely raise finance costs throughout the entire society and cause an irrational distribution of profits. If we were to engage in market finance, it would mean that all financial organs would become commercialized and all financial operations integrated, with the object of increasing profits, and mindless of the competition in the cost sector. This would be a way to disperse the country's strength and to counteract against the country's strength. At the present stage one should therefore develop the financial market, but one must not go in for market finance.

#### **Observe the Effect on Matters of Financing by the Market Orientation in the Reform**

The market economy system has not yet been instituted in China; its possible effect on financial affairs is something that will still have to be further investigated. What deserves our present attention is the effects of the market orientation in the reform of the last few years. These effects comprise the following ten trends of change:

1) In matters of social financing, the area of direct financing is expanding, while the area of counterpart financing is shrinking correspondingly.

2) Among matters of indirect financing, financing by organizations outside the government banks is expanding, while financing by government banks is shrinking correspondingly.

3) Financial commodities are increasing, people are becoming more knowledgeable as to the selection of financial assets, and the savings of citizens assume a greater variety of forms; as a consequence the tendency to deposit currency savings in banks is declining.

4) Of the total amount of monetary funds held in society, the proportion held in that part of the economy that is run by individual entrepreneurs, collectives, and private citizens, and that is held by foreign-invested enterprises, is increasing; as a consequence the proportion held by the state-run economy under the system of ownership by the whole people is on the decline.

5) Of the total amount of currency circulating in society, that of individual entrepreneurs, collectives, private citizens, and foreign-invested enterprises is exceeding that of the state-run economy under the system of ownership by the whole people.

6) Funds are flowing from areas with less developed commodity economy to areas of well developed commodity economy, are flowing from the interior toward the coastal areas and to the special zones, and these disparities are growing larger.

7) The average rate of returns from social funds is declining, and the receptiveness for circulating funds is weakening.

8) A considerable proportion of the credit capital of banks is fictitious, useless for the creation of value and surplus value, merely of use in splitting value and surplus value.

9) Business management of the specialized banks is "hard in its indebtedness and soft in its assets."

10) Banking capital is insufficient to offset liabilities, and there is a real risk involved here.

The above ten different tendencies reflect in a summarized form—merely from the circulating capital aspect—China's financial situation. What has to be particularly pointed out is the imbalance in matters of financing, the receptiveness for financing, and the unproductive character of financing. A market mechanism for financing should transform the present imbalance in capital distribution into a more or less balanced state, it should also strengthen the productive character of funds and help raise the economic returns from capital. If these objectives cannot be achieved, it would have a negative effect on market financing. Under these circumstances, we have to investigate the limitations and the rationality of the market mechanism. This would indeed demonstrate that market financing still require guidance and control.

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## ECONOMIC ZONES

### Mayor, Experts on Shenzhen's Ties With Hinterland

93CE0064A *Shenzhen SHENZHEN TEQU BAO*  
in Chinese 26 Sep 92 p 2

[Article: "Excerpts of Statements Made at Theoretical Workshop on the Shenzhen Special Economic Zone's (SEZ) Lateral Economic Ties During the 1990's"]

[Text] Zhen Liangyu [6774 5328 3768] (Shenzhen Mayor)

The 1990 workshop on The Shenzhen SEZ's lateral economic ties formally opens in Shenzhen today with the good wishes of leaders and experts concerned. First, on behalf of the Shenzhen Municipal CPC Committee and the municipal government, I would like to extend a warm welcome to comrades Ma Hong [7456 3163] and Liu Tianfu [0491 3944 1133], as well as to all the experts attending the workshop, and I want to express heartfelt thanks to all the experts who have consistently shown warm concern and support for the SEZ's economic construction!

Reliance on inland China and improvement of lateral economic ties has always been an important motivation and an important component in service to the whole country in the development of Shenzhen's economy. Since founding of the SEZ, guided by a policy of "the whole country supporting the SEZ and the SEZ serving the whole country" and attracting investment from the outside world and forging ties with inland China, economic ties between Shenzhen and inland China have developed rapidly. The enormous effect this has produced has given powerful impetus to the optimum allocation in accordance with market principles of the key elements of production—capital, technology, and human talent—in both inland China and Shenzhen. It has improved the SEZ's investment climate to attract foreign traders, and it has propelled the rapid development of the SEZ's economy. It has very greatly shortened the time needed for the Shenzhen SEZ's industrialization and urbanization. The windows that enterprises having ties to inland China established in the SEZ, the importation of sophisticated technology and equipment from abroad, the transmittal of international economic and trade information, and reliance on inland China scientific and technical and industrial bases either directly or indirectly stimulated the export of products

from the hinterland. More than a decade of practice shows that the SEZ's ties with inland China have not only played an important role in the development of the SEZ, but in its role as a "window," the SEZ has also spurred development of an externally oriented economy in inland China.

With the advent of the 1990's, and particularly following the strip to south China of Comrade Xiaoping, the building of the Shenzhen SEZ entered a new stage of development and improvement. Between January and August 1992, the city's main national economic indicators showed continued steady increase, gross industrial output value totaling 20.8 billion, up 35.5 percent over the same period in 1991. This included 12.23 billion yuan in export products output value, up 34.6 percent. Investment in capital construction totaled nearly 5.3 billion yuan, up 73.9 percent. Social commodity retail sales totaled 7.2 billion yuan, in a 33.9 percent increase. Exports totaled \$3.586 billion, up 24.5 percent. Budgetary fiscal revenues amounted to 2.635 billion yuan, up 57.6 percent. The period from now until the end of the present century is a critical period for Shenzhen's development. During this period, we will strive to reach the level of development of moderately developed countries during the early 1980's, and also strive to catch up with Asia's "four small dragons" [Hong Kong, Korea, Singapore, and Taiwan] by 2000. We must further widen the opening to the outside world and intensify reform to build an economic system that operates according to international practices. We must develop a socialist market economy, develop both entrepot trade and blue ocean trade, increasing our ability to compete in international markets. We must optimize our product mix and revamp the industrial structure to become a multi-functional international city in every way that is founded on sophisticated industries and supported by tertiary industries. All this will obviously require that we continue to continue to improve lateral economic ties with inland China. We must explore lateral economic ties under new circumstances that have a new substance, new form, and new characteristics, and we must do a better job of studying and drawing up lateral economic tie strategies and policies.

We must not forget the guidance that the leaders and experts gave us during each of the different periods of development of the Shenzhen SEZ for which we express profound thanks. Today, we again invite everyone who has come to discuss a grand design for lateral economic ties between inland China and the SEZ to offer ways and means whereby inland China can link hands with Shenzhen for joint development. We hope that this workshop will inspire thinking, will enrich and develop theory and practice for the SEZ's lateral economic links, and will give impetus to a new economic take-off for the Shenzhen SEZ.

**Ma Hong (Director General, Economic, Technological, and Social Development Research Center, State Council)**

When the Shenzhen SEZ was first being built, the Central Committee called for mastery of two skills, and use of a two market development plan [international and domestic] that included the idea of developing lateral economic ties. As an open economy, the SEZ holds an advantage in the development of lateral ties. During the past decade and more, key elements of production including money and technology, have surged into Shenzhen through lateral ties infusing abundant power into the development of Shenzhen. Shenzhen's achievements in forging lateral economic ties are extremely remarkable. Through its ties with Shenzhen, inland China gained a window for development of an externally oriented economy, and entered the international market. It was through lateral economic ties that the economy of Shenzhen and the country as a whole merged into a single entity and Shenzhen became a lively place that spurred growth of a nationwide network.

Shenzhen during the 1990's will continue to develop further through lateral economic ties; however, because of the new foundation and new conditions, some strategic changes will occur in the SEZ's development of lateral economic ties. In view of current circumstances, the following several points must be watched:

First is a change in the orientation of lateral tie industrial policy. Because of the influence of the industrial structure and the export product mix of inland China during the early 1980's, and also because of inland China's development of an externally oriented economy and the start-up of the SEZ's economy, Shenzhen's laterally linked economy brought in a fairly large number of labor-intensive industries. This helped the rapid growth of the SEZ's economy at the time. However, as the level of development of the SEZ economy rose, and as land became as precious as gold, the relative returns from continued operation of labor-intensive industries declined. Consequently, during the 1990's Shenzhen may consider using its lateral economic ties for the gradual transfer of labor-intensive industries outside the zone in order to import manufacturing industries requiring a high degree of processing and high technology industries. In this way, Shenzhen's lateral economic ties may include a two tier transfer process: a transfer of industries from Shenzhen to the economic hinterland, and transfer of science and technology to Shenzhen from science and technology-intensive areas of inland China.

Second is emphasis on outward radiation in lateral economic ties. During the 1980's, the Shenzhen SEZ's lateral economic ties mostly used Shenzhen's favorable location and preferential policies to attract the key elements of production from outside and inside the country to develop its economy; thus, the concentrating function came to be the most important aspect of its lateral links. By the 1990's, however, the situation has changed to a certain extent. Shenzhen has become very strong economically; in particular, a number of business conglomerates packing a powerful economic punch have come into being. For such conglomerates, Shenzhen

already provides too little space. While developing overseas markets, they urgently call for the opening of markets in inland China. Actually, very many of Shenzhen's business concerns have turned toward the inland market and inland China's attitude has been very welcoming. In the future, more Shenzhen business concerns will develop in this direction showing that as Shenzhen becomes economically stronger, the function of its lateral economic ties will also change correspondingly, i.e., from mostly a concentrating function to an increasingly radiating function even while continuing the concentrating function.

Third is a combination of enterprise ties and regional ties. During the 1980's, the lateral economic ties of the Shenzhen SEZ were exhibited mostly in the linking of SEZ and inland China key production elements at the enterprise level. The main form that lateral ties took was the operation of joint investment enterprises, and joint investment enterprise lateral partnerships. During the 1990's, the Shenzhen SEZ's lateral economic ties will develop to a higher level becoming more complex and diverse, and the partnerships will correspondingly tend to become more diverse. Here I want to emphasize especially the role of regional ties as a form of lateral economic ties. In the development of a socialist market economy, enterprises are the main market entities, and government also plays an extraordinarily important role in the organization and guidance of markets. In lateral economic ties, regional economic cooperation is dealt at a higher level, and government plays an important role in this regard. During 1992, the Shenzhen municipal government organized delegations to visit inland provinces and cities where they talked over economic cooperation. Even more delegations came to Shenzhen from inland provinces and cities to discuss economic cooperation. This shows that government is an extremely active and important element in regional lateral economic ties. Cooperation among business enterprises solves the problem of cooperation at the microeconomic level, and talks, coordination, and cooperation among governments solve overall problems in regional economic cooperation at the intermediate and high level, thereby advancing lateral economic ties to a higher level.

The most important ingredient in lateral economic ties is financial ties, and an effective way of forging financial ties is through the shareholding system. Past lateral ties were limited by the old system's government department ownership and regional government ownership. Most lateral ties remained at a low level, meaning what people called "loose ties," which were limited to enterprises supplying goods, producing parts, and conducting technical cooperation with each other. The holding and controlling of shares of one enterprise by another could not develop to the fullest, and it was impossible to link effectively benefits for both cooperating parties. As a result, the development of lateral ties was very limited. Today, as new theoretical ground is broken on the socialist market economy, the shareholding economy is no longer regarded as something on which capitalism has

a patent. Instead, major efforts are being made to develop a shareholding economy, and this sets the stage for development of lateral economic ties.

The Central Committee has made pilot projects for expansion of the shareholding system and development of a shareholding economy a major component of the intensification of future reform and the building of a new socialist market economy system. As the shareholding economy develops, lateral economic links are bound to develop on a larger scale.

**Gao Shanquan [7559 1424 0356] (Vice Minister, Commission For Restructuring of the State Economic System)**

A socialist market economy is a kind of modern open economy that requires the free and rational flow of key production elements as part of the resources allocation process. Therefore, the opening up of the modern market economy includes not only opening to the outside world, but also includes an opening up among all regions, all sectors, all industries, and all forms of ownership. This opening up rules out any form of blockading or exclusion, including blockading of one region by another and blockading of one sector by another. It requires expansion and development of lateral economic ties among all regions, all sectors, and all business enterprises.

Development of lateral economic ties holds important significance for and plays a major role in hastening the building of the new socialist market economy system. Lateral economic ties promote the timely, rational, and effective flow and organization of key elements of production—commodities, capital, technology, and human talent. Through the formation of lateral ties, areas open up to each other, and the administrative divisions among economic zones are eradicated. Cooperation between industry and business, industry and trade, and between businesses, and the dovetailing of production with commodity flow promote development of the commodity economy. One enterprise's investment in another, enterprises investment in society, and mutual lending among banks promote the formation of capital markets. Paid for technology transfers, and ties between research units and businesses promote the development and application of new technology, and advance the opening of technology markets. Exchanges of skilled personnel and the flow of skilled personnel promote labor market growth; and the flow of key materials for production is bound to be accompanied by information flow that brings about gradual development of information markets. It is easy to see that lateral economic ties spur formation of the socialist market system.

During the past decade or more, Shenzhen's lateral economic ties have played a tremendous role in the building of the special economic zone, and have scored amazing accomplishments. Thanks to the attraction of investment from outside China, the formation of ties inside China, and the fanning out inside China of lateral economic ties, Shenzhen has played a positive role in spurring both reform and opening to the outside world

and economic development nationwide. In the process of taking the lead in building a new socialist market economic system during the 1990's, Shenzhen must continue to pay close attention to and develop lateral ties.

The inherent requirements of a market economy are as follows: clear equity relationships, all key elements in production obtained through markets, all main entities having a stake, enterprises making their own operating decisions, economic operation protected and regulated by law, a just society, and handling of affairs in accordance with international practice, etc. Therefore, in the process of taking the lead in building the new system, Shenzhen must create an organizational framework of its own that satisfies and is in keeping with the inherent requirements of a market economy. Specifically, this means the following:

1) The building of a modern enterprise system that meets the needs of a market economy. Except for a small number of special kinds of firms, consideration might be given to the entry into the market of all enterprises that compete, making them responsible for their own profits and losses, and making them responsible for making their own operating decisions. Accompanying this is the building and perfection of an equity system for enterprises under ownership of the whole people that genuinely separates government administration from enterprise management, and that separates ownership and operating rights within the state-owned economy for the fashioning of a modern enterprise system in which the shareholding system is a main feature. In the process of taking the lead in building a new system during the 1990's, Shenzhen must speed up the running of shareholding system pilot projects and pay attention to better standardization of pilot projects and their management through application of the law.

2) Building a modern market system that is competitive and orderly, and in which international markets and domestic markets are linked. It is particularly necessary to perfect and further develop finance and securities markets. Shenzhen has already taken the lead nationally in this regard. Future development of the securities market must continue to follow the principle of vigorous and bold action tempered by prudence and evenhandedness to overcome negatives in securities market development. Shenzhen must continue to borrow and learn from more successful international experiences, the securities market coming to play not only a catalyst role in the building of special economic zones, but also playing the positive role it should play in development of the national economy and in advancing system reform.

3) A change in government economic functions for the building of an indirect control system for the modern market economy. Government's function in intervening in the market economy must be correctly discharged, experiences analyzed for changing government functions and government department reform nationwide.

4) Continued perfection and sound building of the social security system. Shenzhen has conducted many useful tests regarding reform of the social security system, and it has preliminarily shaped a fairly complete social security system that lays a fine foundation for further development.

5) Use of reform for further expansion of the opening toward inland China and the outside world, thereby moving the attraction of foreign investment and inland ties to a new stage. In the course of opening to the outside world, matters should be handled in accordance with international practice so that the new system operates from a high degree of standardization from the very beginning. In this process, serious attention must continue to be given to the role of lateral economic ties. Lateral economic ties must be used to bind together international and domestic markets, to transform the resources of both, to advance development of the market economy, and to accelerate the spread to the whole country of the results of trial reforms in the SEZ for full benefit from the demonstration effect of reforms.

Ji Chongwei [1323 1504 1218], Executive Director, Economic, Technological, and Social Development Research Center, State Council.

Attraction of foreign investment and formation of domestic economic ties is the main feature of China's special economic zones. Export processing and free trade zones in foreign countries are open to the outside world and closed to the domestic economy, but China's special economic zones are multipurpose special economic zones that are both open to the outside world and not closed to domestic economic ties. This is one of the main reasons why the Shenzhen and other special economic zones in China have developed more rapidly and more vigorously than the economic zones in foreign countries during the past more than 10 years. Data from several principal sources show that during the Sixth and Seventh Five-Year Plans, 3,893 enterprises having inland economic ties and a registered capital of 8.16 billion yuan operated in China. By the end of 1989, actual investment of capital from inland China (including from various central government ministries and commissions) totaled 3.6 billion yuan. No precise statistics are as yet available on the cumulative figure as of 1992, but a rough estimate is that it will be around 5 billion yuan. In 1988, 35 percent of the gross output value of SEZ enterprises came from enterprises having inland China ties. Enterprises having inland ties accounted for approximately one third of the zones' total number of firms, total amount of investment, sales income, and total profits and taxes paid, showing that inland economic ties have been one of the main driving forces in the development of special economic zones.

The important significance of inland economic ties stems not only from their contribution to the building and development of Shenzhen, but from their propulsion

of inland China economic and technological development, i.e., what Comrade Xiaoping noted long ago, namely the role as windows and as radiation hubs of the special economic zones.

As to how Shenzhen can expand the coverage of its internal ties and make a greater showing, I offer the following several ideas for consideration:

1. Conscientious operation of existing enterprises having inland ties in an effort to improve their level of technology and management. Some trades must further revamp and reorganize their industrial structure, their enterprise structure, and the make-up of their products. In order to meet the need to expand imports once China joins GATT, Shenzhen's business enterprises have to meet current and future challenges from the domestic and international market and possess strong competitiveness. Achieving this will require the following effective measures: (a) Trial implementation of the shareholding system, doing good basic work on the shareholding system. In particular, the manager responsibility system under leadership of a board of directors requires firming up so that the directors truly do understand and really do direct. The State Council promulgated "Regulations for Changing the Operating Mechanism in State-owned Enterprises" must be diligently implemented, efforts made to do a good job of changing the operating mechanism in enterprises having inland ties. (b) The exemplary experiences of foreign-owned enterprises and enterprises having inland China links should be summarized and disseminated. (c) Enterprises having inland ties must adopt at once the accounting systems and financial control systems in general use internationally, and tighten up planning and financial management and auditing within enterprises, improving accounting supervision, tax supervision, and social supervision. This is crucial to enterprise administration and management. (d) Make use of the role of intermediary institutions that improve enterprise management, obtaining advice and diagnoses for enterprise management, getting help on the training of cadres, improving the caliber of personnel, and improving administration and management.

2. The emphasis of inland ties should be shifted from ordinary traditional industries to technology-intensive and knowledge-intensive industries, bringing inland China scientific and technical achievements to bear on commodity production. Special attention must be given to tying together domestic and foreign scientific and technical forces in Shenzhen, using research and development projects as a focus for attracting outstanding scientific and technical talent from inside China and abroad to work in Shenzhen, thereby enabling Shenzhen to fashion a new base that extends from scientific and technical research and development to commodity production.

3. Shenzhen and inland China should jointly develop tertiary industries in the information, consulting, financial, securities, foreign trade, business, and personnel

training fields to serve the needs of the whole country. Shenzhen should hold long-running exhibition centers for name-brand, special, premium, and new products, trade fairs, and meetings to discuss foreign capital.

4. Opening new transportation and trade channels between Shenzhen and western China and border regions to make full use of the role of Shenzhen's Yantian deep water port as a port city in south China. Examples include the use of Wuhan Port to export goods from the middle and upper reaches of the Chang Jiang through Yantian via the Beijing-Guangzhou Railroad. This would play a role in dividing up and lowering the cost of the excessive shipments via Hong Kong of China's substantial imports and exports. In addition is the linking of the two export points of Shenzhen in the east and Xinjiang in the west to open up markets in Europe, central Asia, and the Middle East; a partnership of Shenzhen with Heilongjiang and Inner Mongolia to open up the Russian Far East, Siberian, and Mongolian markets; partnership with Guangxi and Yunnan to open up the Indochina peninsula and the southeast Asia market. All must be considered new fields for the use of inland ties for opening to the outside world.

Cooperation between Shenzhen and inland China, among Shenzhen, inland China, and foreign investors, and between Chinese "three rear area support bases" and Shenzhen can be used to link inland China enterprises to foreign markets through the running of trans-national production and commodity circulation enterprises for active and dynamic participation in the international division of labor and cooperation.

Shenzhen has some energy-wasting and water-wasting first stage raw materials processing industries and labor-intensive industries that can be gradually transferred to suitable raw materials production areas and places having surplus labor. Shenzhen can also invest, as its capabilities permit, to help some inland and border regions develop communications and transportation, energy, and raw and processed materials, adding its bit to the strategic effort to develop northwest and southwest China during the next century.

**Zhou Changqing [0719 7022 1987] (Deputy Director, Three Lines Office, State Council)**

The three lines are China's rear area strategic bases. Three lines enterprises enjoy advantages in two regards as follows: One is their very great production capacity and rather good technical equipment and the second is plentiful technical forces and rather strong overall development capabilities. They also suffer from limitations of three kinds: One is poor availability of transportation making cooperation with the outside world rather difficult; another is poor circulation of information resulting in slowness in finding out about changes and needs; and third is longstanding strict operation of a product economy and a weak conception of a commodity economy. Their operating mechanisms do not meet requirements for development of a socialist market

economy. Shenzhen is blessed with geographical advantages, preferential policies, a flexible operating mechanism, and open channels to the outside world. One of its current limitations is a lack of basic raw and processed materials industries; a second is that in its processing industries, precision machinery and fine processing chemical industries are weak links in development; and a third is a relatively poor overall availability of skilled scientific and technical talent that cannot keep up with the demands of high speed economic development. It is clear from the advantages and limitations of the three lines and Shenzhen economic and technical development that Shenzhen's long suits happen to be the three lines' short suits, and that the three lines' long suits happen to be Shenzhen's short suits. If the two parties can use their strengths to remedy their weaknesses, and join together to forge ahead, they can generate tremendous energy, move out into the world together, and take part in international competition. Lateral economic and technical cooperation between the three lines and Shenzhen for a linking of the seacoast with inland areas is representative and classic. Given the advantages and characteristics of the two parties, the main direction of attack and the basic task in their cooperation has to be movement toward externally oriented, high science and technology, and businesslike operating goals enabling Shenzhen to become a modern, international city that has an advanced industrial base, and that develops financial and trade centers that cooperate with the outside world to serve as a bridge whereby three line enterprises can move into the world, and have room to make use of their potential.

Realization of this goal requires greater macroeconomic direction and cooperative action in various regards, one of which is continued enhancement of the work of the "Three Lines - Shenzhen Economic and Technical Cooperation Liaison Department" that was jointly founded by the "three commissions" (State Planning Commission, State Science and Technology Commission, and National Defense Science, Technology, and Industry Commission) liaison team for the transition of personnel from military to civilian life, Shenzhen City, and the State Council Three Lines Office. The purpose of this liaison department is to act as a go between in the building of bridges among enterprises on both sides, and to present timely reports on events to the state and government departments concerned, as well as to conduct the coordination and provide the policy recommendations needed to promote cooperation.

Second is the need to study and draw up a plan to guide both parties toward deeper cooperation. Such a plan must be conceived in terms of an overall strategy, be rooted in the present, and focus on the long-range. It must both fit in with Shenzhen's master development plans, and be consistent with three line enterprises implementation of State Council plans for "revamping, transforming, and playing a role," the core of which is the need to clarify the direction of movement, to highlight key points, and to concentrate on the development

of hot-selling products and the development of new industries in planning bilateral ties.

Third is the need to emphasize support for macroeconomic policies. Since China has long used a vertical system centering around a product economy in which virtually everything from the decision to set up projects to the distribution of funds and materials was divided up between central government departments at lower authorities at all levels, lateral ties have languished in an unfavorable situation of lack of macroeconomic direction and lack of support methods. Voluntary ties among enterprises frequently encountered stumbling blocks and interference from extraneous factors as a result. This was an important reason for the low degree of specialization. Macroeconomic policy must permit actions to be taken that accelerate the pace of reform, those projects that cut across departmental lines, cut across regional lines, in which the degree of specialized cooperation is high and returns good being provided strong support in obtaining project approval, credit, and tax payments, and bearing rich fruits in economic and technical cooperation between the three lines and Shenzhen.

**Guo Rongjun [6753 2837 0193] (Director, Shenzhen Municipal Economic Cooperation Office)**

During the early period of construction of the Shenzhen Special Economic Zone, the state invested extremely little and foreign traders held back. Both the municipal CPC committee and municipal government foresaw early on that this would be a problem, so they proposed a policy for "attracting foreign capital and forging inland ties" from the very beginning, which opened the door not only to foreign traders but to inland ties as well. Inland ties were propelled to an important position. More than 40 central government ministries and commissions, and 29 of the country's provinces, municipalities, and autonomous regions invested in Shenzhen. The rapid expansion of inland ties became a main force propelling the economic development of Shenzhen during the early period. Shenzhen moved ahead with support from the whole country.

The contribution that the Shenzhen SEZ's lateral economic ties have made during the past 12 years to the economic development of Shenzhen have been various and remarkable. To tell the truth, without these lateral economic ties, and without the strong support of all jurisdictions throughout the country, Shenzhen would not be as built up as it is today.

In addition, Shenzhen's development of lateral economic ties also provided a "window" and a stage for the whole country's use of Shenzhen. Inland areas have held more than 4,000 discussion meetings, trade fairs, and training classes in Shenzhen in which more than 400,000 people have taken part. Shenzhen imported more than \$1 billion worth of technical equipment for inland China, transferred more than 250 advanced skills, technologies, and directions for industrial processes to inland China, found jobs for more than 1 million people,

and remitted more than 5 billion yuan in payments for labor to inland China. Some of Shenzhen's experiences in reform and opening to the outside world, inland China also borrowed for use. Shenzhen played a role in servicing the entire country.

The following five aspects of Shenzhen's lateral economic ties may be selected as development goals during the 1990's:

**Goal No. 1:** Building of an economic tie cooperation network with Shenzhen at the hub and backing from the whole country to meet the need for Shenzhen to become an international city and become a socialist "Hong Kong."

**Goal No. 2:** Partnership with scientific and technical forces in inland China for the building and perfection of a lively science and technology market in Shenzhen, attracting scientific and technical achievements from abroad with rapid translation of those scientific and technical achievements into productivity to meet requirements of a development policy in which Shenzhen "uses advanced industries as a foundation and tertiary industries as a main source of support."

**Goal No. 3:** Moving ahead with reform of the shareholding system in Shenzhen business enterprises and the organization of conglomerates to meet needs for Shenzhen's development of leading industries, hot-selling goods, and the economies of scale.

**Goal No. 4:** The sole emphasis on Shenzhen in attracting foreign investment and forging inland ties must be changed from Shenzhen alone to inland China and abroad as well in order to develop and uplift Shenzhen's externally oriented economy.

**Goal No. 5:** Opening up of new fields and use of diverse means, including active use of the economic cooperation development fund that Shenzhen found so effective, in order to gain further backing from the whole country, serve the whole country, and make a greater contribution to the whole country.

**Wang Mulong [3769 2606 7893] (Deputy Director Shenzhen Municipal Economic Cooperation Office)**

During this new period of SEZ development, the inland-linked economy must rise to a new level. First, the Shenzhen SEZ's development strategy must provide a focus for a gradual change from the former largely basic forms of partnership to scientific and technical partnerships for the opening of new fields for lateral economic

ties. Specifically, use of the market mechanism to stimulate the rapid translation of scientific and technical research achievements into productivity must be explored, and high level use made of the SEZ's role as a window to advance a scientific and technical boom in both Shenzhen and throughout the country, science and technology making the society prosper, science and technology making industry prosper, and science and technology making the people prosperous.

Second, the inland-linked economy has to meet requirements of the new situation and produce development by leaps and bounds; it must further improve its ability to revitalize itself. It must change the internal structure and the operating mechanism of the economy in the following ways: A gradual change must be made from a system in which a substantial percentage of the inland-linked economy is planned to an internationalized market system. Then, a change must be made from enterprises devoted exclusively to production to enterprises that combine production with the spread, collection, and dissemination of information. Next, is a change from loose and mechanical ties to an optimized structure. The key elements of production must be allocated in a optimized fashion, full use made of the advantages that the SEZ's market regulation provides for the building of a stable partnerships of all kinds that can make the most of the advantages of all parties concerned. There should be a change from partnerships of mostly industries to emphasis on the development of partnerships made up of advanced industries and tertiary industries. Last is a change from mostly partnerships with inland enterprises to mostly "the China, China, foreign" enterprises kind, i.e., partnerships of inland China, Shenzhen, and foreign-owned enterprises for an increase in external-orientation, and an increase in China inland-linked enterprises ability to compete internationally.

Third, more must be done to increase the ability of the SEZ's economy both to extend inland and to take part in the international economic cycle. In approving the building of the special economic zones, the Central Committee clearly conferred on them the unshirkable duty of stimulating the economy of the whole country and increasing international economic cooperation. In addition, the ultimate bases for the key elements in SEZ production are still in Mainland China; development of the SEZ economy is dependent on inland China. The outlines of the basic work to be done to make the Shenzhen SEZ economy radiate outward into inland China have been set. Practical experience gained in work during previous stages shows that the SEZ has demonstrated abundant vitality, objective capabilities, and real economic effectiveness in moving toward inland China within certain limits and in certain fields.

## CENTRAL-SOUTH REGION

### Model for Enterprise Groups in Guangdong

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[Article by Zhuang Rongkai (8369 1369 7030), Tan Yangbo (6223 2254 3134), Lu Kaiyin (7627 7030 0995), Policy Research Office, Guangdong Provincial Academy of Social Sciences: "Studying a Model for the Development of Enterprise Groups in Guangdong." Responsible editor: Shang Zengjian (1424 1073 0256)]

[Text] Although enterprise groups have been organized and developed abroad for quite some time already, there has been no such precedent in China that one could go by. It is therefore of a major practical and strategic significance to explore a model and direct the growth of enterprise groups with Chinese characteristics, basing on the existing peculiarities of such new enterprise groups in Guangdong and taking reference from the relevant international experiences. The study is also significant in order to gain, from an overall perspective, a grasp of the developmental trend of enterprise groups, and to induce their growth in the direction of standardization, a high level of perfection, and of internationalization. The present article is a first attempt to draw a developmental model from a comprehensive macro-and microeconomic angle, and is presented as an initial study.

#### I. Converting Property Rights Into Shares

How to merge property rights is a crucial question in the organization and development of enterprise groups. Different ways of merging property rights result in differences in the disposition of resources, in economic efficiency, and in competitive strength. In Western industrial systems, the effective conversion of assets into stocks has proven an optimum method of merging property rights.

Compared to the rest of the country, the pace of developing enterprise groups in Guangdong has not been slow, but due to the lack of standardization of property right mergers, many groups are suffering from "dysplasia" of property rights, which mainly manifests itself in:

1) Formation of "nominal" groups. In these there is only one dominant enterprise, putting up the framework of an enterprise group. Nominally the group runs the enterprises, but actually "one enterprise runs the group."

2) Formation of groups that are "refurbished versions" of administrative companies. These are group organizations that have not undergone any transformation to real corporate bodies; the special characteristics and functions of legal persons is unclear in them. They are essentially not different from the former administrative-type companies, and one may speak here of "new bottles filled with old wine."

3) Formation of association-type groups. Here, several member enterprises pool their capital and organize an "association" company. This is merely a pooling of assets, without going one step further to the control of all assets by means of shareholdings.

4) Formation of "dragon head" type groups. This type of groups is organized in such a way that one enterprise manufacturing a famous-brand product is at the head, the "dragon head." This enterprise will then maintain business relations with the other members of the group only by their use of the same trademark and in marketing and export operations. There is no integration of assets in this kind of a business relationship.

All this shows that according to the modern theory on property rights, a reform of the Guangdong enterprise groups by transforming them into shareholding entities is not only extremely necessary, but also imperative under the circumstances.

According to the present state of Guangdong's economy, we should select industrial enterprise groups as primary targets of future developments, for the following reasons:

1) Among Guangdong's present enterprise groups, industrial enterprise groups, or those of combined industrial and trade operations, are economically the most powerful. There would then be a certain foundation, as well as certain experiences available for any organization and development of industrial enterprise groups.

2) The various specialized banks in Guangdong have not yet been turned into enterprises, and a financial entity that would truly meet the needs of the developing commodity economy has by far not yet been formed. This has an adverse effect on the initiative and enthusiasm of banks as principal property right entities with regard to their possible participation in investments in enterprise groups.

The industrial enterprise groups that Guangdong will be developing will not be extensions of the present enterprise group system, but will be the creation of a new system on the foundation of the old system. The overall model that we shall aim at will be: A standardized industrial organization with clear property right relations, based on the corporate system, with a group company (parent company), formed by continuous mergers and accession, to be the principal entity or core, with the stock ownership relation to be the bond, and organized by investments in controlling stocks or in participating stocks. The internal organization of its assets shall be composed of three levels:

At the first level, the parent company, or to be called group company, is to be the controlling level of the enterprise group. It shall be composed of several powerful large-scale enterprises as shareholding investors, and it shall have independent corporate character. The decision-making position of the group company within the enterprise group is to come about by its holding shares of over a certain amount in the other companies

or holding shares that constitute a controlling interest in the assets. The group company is not tantamount to the enterprise group. Actually, the enterprise group refers merely to a legal partnership—not an independent legal entity—in which the group company (parent company) is the principal entity, and which comprises subsidiary companies and associated companies, whose business operations are jointly managed, but who are legally independent entities.

At the second level, the subsidiary companies; they are the level that holds controlling stocks in the group company. The subsidiary companies, as members who hold the controlling stocks, are mainly established by investments of the group company. There are two ways of holding controlling stocks: one is holding all capital of the subsidiary companies—the group company holding 100 percent of all shares; the other is holding a controlling portion of shares in the subsidiary companies—the group company holding over 50 percent of shares. Whatever the pattern of the subsidiary companies, all have the status of independent corporate bodies, but their production and business activities are subject to direct or indirect control by the group company.

At the third level are the associated companies, a level over which the group company has no control by means of shareholdings. They are enterprises in which the group company holds stocks at the rate of 30 to 50 percent; they are thus outside the control by means of stock holdings. They have the status of independent corporate bodies and are independent in their business operations. They are generally large-scale companies with listed stocks.

The reorganization of property rights in the standardization of enterprise groups will of course touch on the adjustment of the extent to which the state owns property. Straightening out the property relationship between state and enterprise groups requires that some of Guangdong's state-owned enterprises be transformed into companies. The specific measures to do so would be: First, we must establish and delineate the property rights of the state-owned enterprises and do so through the agencies of provincial or municipal rank that are in charge of state-property; second, we must divide the state-owned property into three parts, state-owned share, enterprise share, and staff and workers share. On the premise of guarding against state-owned property being eroded away, we must deal as effectively as possible with the property relationship between the three parties concerned; third, through the transfer market for enterprise property the three parties shall convert their shares into stock investments in the group company. This method has the advantage of shifting the government's relation to the enterprises from one of predominantly production management to one of predominantly asset management, thus truly bringing about the separation of asset ownership and managerial right.

## II. Normalizing Control

Control of the enterprise groups comprises two facets: one is the microeconomic control in the enterprise group

internally, and one is the macroeconomic control exercised by the government over the enterprise groups.

1. The microeconomic control in the enterprise group internally. This control is in actual fact the issue of strengthening the centripetal forces in the business operations of the member enterprises, to raise the efficiency in managing the group assets. According to the scope of the development of enterprise groups in Guangdong and the special characteristics of market trends, determination of managerial forms of enterprise group organizations by means of classified criteria can indeed be done and done in a scientific way.

1) Small-scale enterprise groups with domestic market orientation are more suited for the use of a twofold management system, namely by the group company and by the subsidiary companies. The group company in its capacity of large shareholder will exercise its managerial power with regard to controlling its subsidiary companies through control exercised at the shareholder meetings and through the board of directors.

2) Small-scale enterprise groups with foreign trade orientation should adopt a managerial system with the levels: group company-overseas business office—subsidiary companies, or with the levels: group company—subsidiary companies (located in China). The group company will exercise organizational management in a two-way vertical control pattern.

3) Large-scale enterprises with foreign trade orientation are more suited to use, in a combination of centralization and decentralization, a managerial system of three ranks: group company-business department-overseas business department—subsidiary companies, or group company-business department-domestic business department—subsidiary companies. The business department is actually to be the bridge that links the group company with the subsidiary companies. There are no specialized companies (split off from the subsidiary companies).

As to the control of associated companies, the group company has only partial power to control them through its limited stock holdings, through agreements, and through contracts.

2. The government's macroeconomic control of the enterprise groups. Enterprise groups are "connecting points" in the organic integration of planned economy and market regulation. They are undoubtedly one important way for the government to exercise effective regulation and control of the economy. However, the former methods of having the government directly manage enterprises is no more appropriate in the case of enterprise groups. The provincial government, which is locally the higher ranking authority, must effect the following changes in its pattern of exercising control over the enterprise groups:

First, shifting from microeconomic to macroeconomic control. Through its medium-term and long-term economic development plans, through the specific plans of the economic developmental strategy at the various stages, and other methods, the provincial government guides the enterprise groups to make microeconomic decisions that accord with the macroeconomic objectives at the provincial level.

Second, shifting from direct control to indirect control.

Third, shifting from emphasis on centralized control to supervision and service.

Supervision by local governments over enterprise groups comprises mainly supervision over financial matters, over pricing, over product quality, and supervision to prevent monopolies. As to service to enterprise groups, this is mainly a matter of providing a perfect "soft and hard" environment conducive to local investments, and to provide favorable conditions that will facilitate efforts on the part of the enterprise groups to open up international markets.

Fourth, shifting from general control to specific control. Enterprise groups are different from ordinary enterprises in that their scope is very large and have great power. It is, therefore, necessary for the provincial government to institute planned and individually targeted control with regard to enterprise groups that occupy decisive positions in the national economy.

### III. Toward a Pluralism of Functional Capabilities

The functional capabilities of enterprise groups are closely bound up with the extent to which they have grown and with the environment of socioeconomic reforms. Because of the novelty of the development of enterprise groups and the limitations of the structural reform, the functional capabilities of enterprise groups have not been developed well in Guangdong, as demonstrated by the following facts:

1) Functional capabilities are deficient. Most enterprise groups are still run like ordinary enterprises and have only the general functions of production and marketing, while lacking more expanded functions, such as of information gathering, financing, and overseas investments.

2) Functional capabilities are not developed to maturity. Although a few enterprise groups have the functional capacity for technological development, financing, etc., they are too weak, too inept at adapting, remaining ineffective.

3) Functional capabilities are directed toward internal development.

Perfecting the "primary function," shaping a "secondary function," and achieving a plurality of functional capabilities must be one of the important tasks and objectives of Guangdong's enterprise groups during their development in the 1990's, a task that may be accomplished in two steps:

First step: pursuing with great emphasis the perfection of the "primary function." This should mainly comprise:

1) Information function. The enterprise group shall establish a special functional department—the information and intelligence center, which shall gather, handle, analyze, and put to use all information obtained through all kinds of domestic and foreign channels regarding production, technologies, business operations, business cooperation, and also concerning politics, law, and cultural affairs, so as to be able to provide the enterprise groups with absolutely necessary counsel for their decisions.

2) Production function. The enterprise group must be the center for production decisions; the business department, as it organizes and arranges production, must be the center responsible for profitable operations; the subsidiary companies and factories, as they manufacture the products, must be the centers for cost control. Each of these three levels shall attend to its particular duties in pursuit of the common objective, namely to raise economic returns for the enterprise group.

3) Development function. The group company shall establish a research center for scientific and technological development, which shall take advantage of all favorable opportunities for the importation, assimilation, absorption, and new creation of advanced technologies and of all strong inducements to pursue technological progress, and shall engage in continuous development and research, to ensure compatibility of the group in the market.

4) Trading function. Enterprise groups which are in suitably favorable condition shall establish specialized trading companies, based on the import-export departments, to institute import and export trade, domestic trade, trade with third countries, barter trade, forward business, etc. utilizing the advantages of specialization and the right-scale business volume to import raw materials, map out plans for export production, organize exports, import equipment of advanced technology, etc. for the benefit of the group members.

The second step: placing particular emphasis on development of the "secondary functions," which will be mainly comprised of:

1) Social financing function. Establishing finance companies is an intrinsic demand of the business development of enterprise groups. A finance company is, on the one hand, responsible for matters relating to capital funds and stocks of group members, and, on the other hand, for providing capital funds to society by means of company debentures, issuing of shares, and bank loans, such funds to be used to develop new products and to take care of liabilities of shareholding member enterprises, and thereby to strengthen the key position of the group company within the enterprise group.

2) Organization and coordination function. In reliance on its own solid investment strength and other functional capabilities, the group company must bring its coordinating and organizing function into play within the enterprise group. (a) In times of industrial reorganization and structural adjustments, it must assist the enterprises within the series to adjust their product mix, business orientation, marketing organization, etc. (b) Organizing and adjusting social capital funds, which are being invested in relatively risky industrial areas, such as developing energy sources, technological developments, development of new products, etc. (c) Organizing and deploying enterprises within the series, even enterprises outside the series to engage in overseas investments or engineering projects.

3) Overseas investment function. This mainly comprises: (a) establishing its own branch companies overseas; (b) investing in partnerships overseas by enterprises within or outside the group series; (c) transferring technologies to overseas.

#### IV. Rendering the Scale Economical

Enterprise groups have been developed in Guangdong in quite some numbers, but as a whole, developments have been inordinately small. In their scale they cannot compare with enterprise groups in the developed industrial countries, and also not with some large-scale enterprise groups in the rest of the country. At the same time, in the organization of enterprises of the manufacturing industry, the level of cooperation of specialized industries is not high. Production on the principles of "large and all inclusive" and "small and all inclusive" is still very widespread, and has resulted in such conditions as production in small batches, duplication of products, and poor results as far as right-scale economy is concerned. It is clear to see that enterprises with this level of an economic scale will find it impossible to come out victorious when participating in the competition in the international market.

The way out will depend on a readjustment of the production scale of Guangdong's enterprise groups, according to the demands of an optimal economic scale. It is necessary, for this purpose, to determine the rational economic scale of enterprise groups at the macroeconomic as well as at the microeconomic level.

1) Microeconomic scale of the groups. To determine the optimum economic scale for the enterprise groups it is necessary to observe mainly to two factors: (a) Product batches. Generally speaking, it is only possible to keep costs to scale very low, which then will also bring good returns to scale, if products are produced in very large batches. When determining the right scale production for enterprise groups of Guangdong Province, we have to refer to internationalized criteria as basis. This is a precondition for competitiveness of the enterprise group in the international competition. (b) Levels of asset management. Rational and stable asset management levels are the necessary guarantee, brought about by

maintaining a high efficiency of operations and high returns in the enterprise group. According to the successful experiences of Japanese industrial-type enterprise groups, the asset management levels of enterprise groups in Guangdong Province should now in general most suitably be controlled at two levels, the level of the parent company (group company) and the level of the subsidiary companies. Some particularly large enterprise groups should, at most, have the three ranks involved: the parent company, the subsidiary companies, and the subsidiaries of the subsidiary companies. Apart from this, main membership in the enterprise group would be best maintained at around 20 to 25 members, and the limit for associated companies should be 50 companies. The level of those exercising property rights shall be determined at a rational, limited scale, the purpose being to raise business and management efficiency of enterprise groups in Guangdong Province and to strengthen the controlling capability of the group company.

2) Macroeconomic scale of the groups. The measure of production concentration ratio is an important indicator for the efficiency of the macroeconomic scale economy. To cope with the irrational conditions of allocating resources because of the "small and all inclusive" and "medium and all inclusive" systems prevailing in the manufacturing industry of Guangdong Province, a plan based on the principle of specialized coordination and right-scale economy, for the adjustment of enterprises to a right scale structure, should provide: (a) The manufacturing industry (e.g. motorcar, machinery, electrical equipment, chemical engineering, etc.) should establish an enterprise group for large product production and installation, and with this as the core organize small-scale production enterprises to engage in specialized coordinated production of components and parts. (b) The raw materials industry (e.g. iron and steel, petrochemicals, electric power, etc.) should establish large-scale enterprise groups with a high concentration ratio. (c) For the light and textile industries (such as light manufacturing, weaving and spinning industries) it would be more suitable to establish diversified export-type enterprise groups, making popular name-brand products their leading articles.

#### V. Intensification of Industry

Faced with the competitive trend toward regionalism and the formation of blocs in international economic relations and trade, the industrial development of Guangdong Province in the 1990's is, out of necessity, steering a course of intensification, with the reform of the industrial structure as core, while the enterprise groups, being component of the industrial structure and carriers of the product mix, are undoubtedly on the way to realize this transformation. In the following, we present a few suggestions how enterprise groups could be made use of in order to realize the intensification of the industrial structure in Guangdong Province:

First, using a policy of industrial organization which selects and promotes as primary industries certain lines

of trade with high added value and strong demand in the international market. For this purpose the provincial government must effect, by the double tactics of market mechanism and governmental impetus, improvement and readjustments in the medium and small-scale enterprise groups in all localities throughout the province whose original product mix is identical, whose scale returns are deficient, and who each go their own way in production and business operations, in order to promote the development of the primary industries and to promote superior products. Under the current financial system, ownership system and market condition, it is easy to imagine the difficulties which the government will be facing, and the hardships the group will have to endure, when effecting the transfer, combining, taking over, and concentration of enterprise stocks. However, considering the overall plan of the strategy, this is the necessary alternative for getting the enterprise groups of Guangdong Province on to the road of internationalized development.

Second, using an industrial technology policy, i.e., primarily fostering those industries whose strategy entails high-tech development and who will enjoy superiority in the competition of the future international market, such as microelectronics, new types of materials, fine chemicals, biotechnology, etc. During the Seventh Five-Year Plan, Guangdong built up some high-tech enterprises, and the government should, during every five-year plan, select one or two strategic high-tech enterprises, and through the effective way of organizing enterprise groups assist in their development, and furthermore ensure their success by various preferential measures.

Third, using law and regulations as reliable guarantees for the smooth and correct growth of enterprise groups that bear the heavy responsibility of developing high-tech industries. Bringing about the intensification of the industrial structure is a process that must proceed in an orderly and gradual way; it is impossible to accomplish it in one short move. It is thus necessary, on the premise of observing the demands of the state's macroeconomic policy, to formulate and implement in Guangdong a local industrial policy and a plan for the development of enterprise groups, in order to create a favorable external environment of a legal system that will enable the rational adjustment of the industrial structure and the healthy growth of enterprise groups.

## VI. Internationalization of Business Operations

Internationalization of business operations of enterprise groups means two volitions, namely: conforming to the global tide of economic developments and adopting in one's economy a foreign trade oriented strategy. Bringing about internationalization of business operations of Guangdong's enterprise groups is a developmental objective that poses very high demands, and it will be impossible to fulfill these in one short step. The realistic choice must be to base on the developmental condition of enterprise groups in Guangdong Province, to adopt an "extrapolating" strategy of "advancing by

stages, and with progressive changes," to move the business activities of the enterprise group toward the international market gradually through a stage-by-stage transformation of the business mechanism, to establish transnational business systems, and as a consequence to finally attain the objective of the foreign trade oriented and internationalizing developmental strategy.

During the 1990's, the trend toward trade protectionism, created by the formation of regional trading blocs, will increase and not diminish. Faced with this environment in international economic relations and trade, all attempts to benefit from international business and marketing networks of transnational companies and general trading companies, to expand the export of products from Guangdong's enterprise groups, especially trying to benefit to be able to set up an international business and marketing system for Guangdong's enterprise groups, are moves of a very positive and realistic significance. During the period of the Eighth Five-Year Plan, Guangdong's enterprise groups must not lose the chance to widely utilize the international trading and marketing channels of Western transnational companies and Japanese and South Korean general trading companies to expand exports of their own, Guangdong's, products. The concrete methods to be as follows:

- 1) Using primarily the business and marketing channels of the Japanese general trading companies as trade intermediaries to expand exports of some products that are of great bulk, such as textiles.
- 2) Directly using the international trade and marketing channels of transnational companies through joint ventures and joint cooperative enterprises in Guangdong to be set up between member companies of the enterprise groups with European or American transnational companies.
- 3) Using the marketing channels of branch companies or subsidiary companies established in China by transnational companies to directly include the products of Guangdong's enterprise groups in the global marketing system of the transnational companies.
- 4) Using as an assist the trademarks of transnational companies abroad to serve the export and marketing of products of the Guangdong enterprise groups.

The ultimate objective in using the presently existing international business and marketing channels of the transnational companies and the general trading companies is to build up a business and marketing system of Guangdong's enterprise groups in the nature of general trading companies. A consequence of that will be that it will allow escape from our dependency on relevant international industrialized trading and marketing systems and escape from our passive position in the exportation of products of the Guangdong enterprise groups. During the period of the Ninth Five-Year Plan, the Guangdong enterprise groups should start organizing their own specialized trading companies similar in nature to the general trading companies abroad and

thereby take the first step toward building up an international trading and marketing network, at the same time also lending a helping hand to investments abroad by our enterprise groups. In the buildup of specialized trading companies, there are two models to choose from:

One is the endogenous type, i.e. to build on the foundation of the functional business and marketing departments within the large enterprise groups and expand them into specialized trading companies with the intermediary functions of contacting domestic and foreign factories, and with effective information gathering, trading, and organizing functions.

Another type is the hybrid type. On the basis of voluntary associations, breaking down departmental, trade, and administrative divisiveness and combine the import-export companies or local export trading companies to jointly establish specialized trading companies, with the enterprise group as principal entity.

In a comparison, the "hybrid type" of specialized trading company seems to be the preferable choice. It will not only allow utilization of economic advantages of the enterprise group as well as those of the export trading companies, bringing into play the combined effect of collective resources, but will also enable a perfect amalgamation of foreign trading companies with enterprise groups, as to be undertaken in the deepening of the reform of Guangdong's foreign trade system during the Ninth Five-Year Plan.

As specialized trading companies, their first task would be to start in a well-targeted and well-planned way the buildup of new marketing channels abroad, on the foundation of a further consolidation of our existing international markets. Feasible ways to do so are:

- 1) Setting up foreign trade branch establishments, and later raise the status of these branches to local corporate enterprises.
- 2) Setting up a marketing network by means of joint ventures or cooperative enterprises with local agents, sole agents, general line wholesalers, and retail trading companies.
- 3) Investing an appropriate amount in the purchase of a local wholesale or retail network with good prospects.

Secondly, they should assist the enterprise groups to gradually invest in local manufacturing industries abroad, overcoming the regional customs barriers there, manufacturing and marketing on the spot, and earning a good return from such investments. Considering the particular way in which Guangdong's enterprise groups have emerged and grown, investments should concentrate on such sectors of production that are labor-intensive, require simple technology, and will produce standardized products, and that will also show superiority in their lines, such as textiles, clothes, foodstuffs, machinery, electrical home appliances, etc. The investment should preferably be in the form of joint venture

enterprises, the ratio of investment to be decided by the economic forces. The investing entities could be three parties, namely the trading companies, Guangdong's enterprise groups, and local finance.

Apart from efforts to be expended by the enterprise groups themselves, all relevant agencies of the government should add an external impetus, for instance, enacting a favorably biased policy, simplifying procedure for personnel intending to go abroad for business purposes, and, at an early date, promulgate a "Law Governing Investments Abroad."

#### Shaoyang City Reports on Public Order Improvements

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[Article by Wu Xiangdong (0702 0686 2639), secretary of the CPC Committee of Shaoyang city, Hunan: "Vigorously Promote Focused Improvement of Public Order and Manage Public Order Well; Measures Taken by Shaoyang City To Improve the Public Order and Understanding They Have Gained Thereby"]

[Text] Shaoyang city is of strategic importance in southwest Hunan. Under the city are nine counties and three districts with a population of 6.77 million, 517,000 of which live in the urban area. Over the last few years, due to various factors, Shaoyang's public order has been disturbed and, for a time, this disturbance reached a shocking degree. There was a large increase in violent crimes such as murder, robbery, kidnapping, and rape and, in particular, gang offenses were very prominent. Criminal gangs engaged in beating, smashing, robbing, killing, and looting. There was no evil in which they did not engage. This not only seriously endangered social stability and the people's lives and property, but also seriously interfered with and harmed the development of economic construction and other aspects of work. The leading comrades of the central authorities and the provincial committee have paid a high degree of attention to the city's serious public order situation and on several occasions have provided important directives. The provincial committee also sent a powerful work team to guide and assist us in engaging in focused public order improvement. Through over a year of hard work, these major measures have seen obvious achievements and we have realized the first steps in moving from confusion to order. This trend is mainly manifested in the following:

- 1) There has already been a change in the shocking situation where public order was chaotic, and now the masses feel a sense of security. Last year, the figures for criminal and serious cases throughout the city were down 22.6 percent and 22.8 percent respectively compared with the previous year. Of the total figure, criminal and serious crime cases in the three urban districts were down 39 percent and 42.8 percent respectively compared with the previous year. The broad number of cadres and

the masses happily noted that a stable situation which is now being enjoyed in Shaoyang has not been seen for many years. 2) The comprehensive public order improvement responsibility system has been implemented quite well, and a situation where all sides of society manage things together has been basically formed. All levels of party and government organs have placed the good management of public order as a major task on their agendas, have established and perfected organizational set-ups for grasping comprehensive public order improvement and have signed responsibility contracts at all levels. Grass-roots work has been gradually strengthened, the capacity to prevent and control crime has been clearly improved, and the previous passive situation in public order work where "a small number of persons handled the work, while a large number looked on" has been turned around. 3) The prestige of the party committee, the government, and the law organs has greatly increased and there has been an obvious improvement in relations between the party and the masses and between the police and the people. In the past in our city, because public order was not good, and because some unhealthy trends existed in the law forces and there were even some public security cadres and policemen who violated law and discipline, the image of the law forces and the public security cadres and policemen has been seriously harmed. This affected the relationship between the party and the masses and between the police and the people. The authority of this "rigorous crackdown" and the effectiveness of the focused improvement of public order won for the party and the government the broad masses' faith, and the relations between the police and the people are now also more harmonious than before. 4) There has been an obvious improvement in the social atmosphere, and there has been a great decrease in phenomena involving the "six evils." Through focused improvement of public order and rigorously enforcing of the management of public order, women who solicited customers and sold sex, as well as pimps, who used to be found in public places such as bus stations, parks, and hotels, have now basically disappeared and there has been a marked decrease in prostitution; gambling has been virtually eliminated; pornographic publications and audiovisual products have basically been eliminated from the cultural market; there has been a great decrease in disputes among the masses compared with last year; and an atmosphere of stressing politeness and observing discipline is starting to grow among the people of the city, while the number of young people who study hard to advance themselves is growing daily. 5) A quite stable social environment has been created and this has promoted industrial and agricultural production. Last year, the city's GNP grew 7.1 percent over the previous year; national income was 6.9 percent above the previous year; gross industrial output value grew 8.6 percent over the previous year; gross agricultural output value grew 11.8 percent over the previous year; and total grain output value grew 16.7 percent over the previous year, producing a record output figure.

The methods we have adopted in our focused improvement of public order and realizing the change from confusion to order have been fully affirmed by the central and provincial committee leaders. In July and October last year, the Hunan Provincial CPC Committee and the Central Committee for Comprehensive Improvement of public order convened in our city conferences to discuss experiences on focused improvement of public order. How did we engage in the focused improvement of public order and realize the change from confusion to order?

**1. The basic guarantee for focused improvement in public order is strengthened leadership by the party committee and the government, and solid implementation and management.**

First, we engaged in thorough reflection, unified our ideological understanding, and strengthened our sense of political responsibility in solidly implementing and managing this work. In accordance with major directives from the central and provincial party committee leaders, we got in close touch with the chaotic situation in our city's public order and successively convened 10 meetings or enlarged meetings of the city CPC committee standing committee and frequently convened meetings of senior responsible persons at or above the county or regimental level, and seriously organized study and discussion to reflect on the situation. Everyone came to deeply understand that for a time in the past we lacked a correct analysis and appraisal of the shocking public order situation in Shaoyang, and had an insufficient understanding of the class struggle which still existed within a certain scope in the new situation, or even turned a blind eye to it. In particular, with respect to the serious criminal activities which occurred, in the beginning we only handled them as if they were general public order cases and did not adopt countermeasures in a timely way. One of the major factors that gave rise to these biases in understanding and errors on the decision-making level was that our political sensitivity was not strong and our consciousness of class struggle and dictatorship was quite weak. Thus, we were unable to adopt resolute measures to engage in focused improvement and this led to the public order situation becoming more serious daily. If we did not grasp Shaoyang's public order situation well, did not live up to the great trust and expectations of the party and the people, and did not put great effort into grasping this work, it would result in us being seriously divorced from the masses, losing the faith of the people, and would seriously affect the smooth development of our region's economic construction and reform and opening up. Thus, everyone decided with a great responsibility to the party and the people, to take the improvement of public order as a major political task and were greatly determined to take the most powerful measures to earnestly and tightly grasp the work, to turn around the serious public order situation as quickly as possible, and to remodel Shaoyang's image.

Second, we established specialized groups and implemented the "three priorities" to strengthen our ability to

firmly implement and manage this work. The city CPC committee and the various county (district) committees all established three groups: a leading group comprising persons skilled at leadership and party and government leaders; a specialized work group comprising responsible persons from law departments and cadres experienced in handling cases; and a data group formed by cadres transferred from relevant departments. These three groups took specific responsibility for organization and command, investigation and supervision, and information collection and exchange in the work of focused improvement of public order. The division of work was clear and for every aspect of work someone was in charge. We also gave this work priority in terms of human, financial, and material resources; and those actual problems which had to be resolved for the focused improvement of public order were given priority in terms of both research and resolution. To resolve the problem of insufficient police officers in urban areas, we transferred over 400 cadres from organs directly under the city onto the streets to assume duty and to assist in the maintenance of public order. To deal with the problem of insufficient money for handling cases, in a situation of extreme financial difficulties, we provided over 1 million yuan in special funds from the city's finances to be used to handle cases and improve facilities.

Third, we improved the leadership style and implemented face-to-face leadership to increase the efficiency of firm implementation and solid management of this work. In the focused improvement of public order, party and government leaders at all levels of the city were both commanders and soldiers and supervisors. Every time there was a major operation, the party and government leaders from all levels went to the front line to command. After work deployment was arranged, the party and government leaders would take the lead and go deep down to the grass-roots level to engage in investigation and supervision, personally take to the streets to take charge of work, ride buses in antipickpocket duties, conduct checks on various posts, and take turns to work on public holidays and maintain round-the-clock vigilance. In this way, they were able to grasp trends and discover and resolve major problems in a timely way. As the various levels of party and government departments gave this work great attention and the party and government leaders took the lead, with each level guiding another, we effectively organized and mobilized strengths at all levels and channeled them into focused improvement of public order, brought into play quite well the integrated role of joint implementation and management, and guaranteed the smooth carrying out of focused improvement of public order.

**2. The primary link in focused improvement of public order is to firmly grasp strong measures and firmly and swiftly handle violations in accordance with the law.**

Over the last few years, we have also engaged in several "rigorous crackdowns." However, because the crackdowns were insufficiently timely and powerful, that

which should have been firmly handled was not handled firmly and that which should have been handled quickly was not handled quickly, and this led to the situation becoming gradually worse. The masses criticized the actions as just producing steam in cold water and said that the overall temperature was not high enough. In the current focused improvement of public order, we seriously drew in the experiences and lessons of the past and formulated a set of quite complete plans for struggle. In terms of the guiding ideology for engaging in struggle with criminal elements, we upheld the posture of dealing with a big problem in a big way. In terms of deployment for struggle, we took as our work focuses those problems which the masses had most intensely complained about, and changed the previous practice of carrying out war on all fronts and trying to attack everything at once. Rather, we targeted our efforts on the three urban districts and four surrounding counties. In the detection, smashing and handling of criminal cases, we centered our attacks on several vicious cases as a way to promote the detection and smashing of other cases. In terms of organizing strengths for the struggle, we strengthened coordination and cooperation among law departments, so that the limited police power and contingents which were engaged in handling cases formed a "fist." In terms of measures for the struggle, we implemented the strategy of attack by storming, encirclement, and hunting down, gradually extending our reach deeper. Specifically, we did well in four battles:

1. The "forward post battle," in which we centralized strengths in speedily tracking down and arresting escaped criminals. In recent years, our city has authorized the pursuit and arrest of a large number of criminal elements who had escaped or absconded. Their escape or absconding resulted in it being impossible to try a large number of cases and this brought serious hidden harm to public order. Thus, we took the tracking down and arrest of these fugitives as our first weapon in improving public order in a focused way. The city organized over 1,400 public security cadres and police and over 1,100 public order personnel to engage in collective tracking down and arrest of the fugitives, to catch them unaware by launching surprise attacks. The county (district) public security departments deployed over 1,600 public security cadres and police and security cadres, organized 203 pursuit and arrest groups, and sent them to various areas to track down and arrest fugitives.
2. The "assault battle," in which concentrated assaults were launched on major and difficult cases. To crack as quickly as possible a number of major and difficult cases which had been under investigation for a long time, but in which no breakthroughs had been achieved or which had not been cleared up, and to strike powerfully and swiftly at criminal elements in accordance with the law, the city's public security bureau organized 328 criminal investigation police and divided these cases among five deputy bureau heads, with responsibilities being assigned to individuals. This greatly sped up the progress of investigation and cracking of these cases. The procuratorate and judiciary became involved in the cases at an

early stage and, in accordance with the principle of clarifying the basic facts and ensuring that proof was conclusive, dealt with the cases firmly and swiftly in accordance with the law.

3. The "psychological battle," to divide and break up the criminal elements. At the same time as we frightened the criminal elements through "rigorous crackdowns," we put efforts into using policies and laws to divide the criminal elements to save those who had just been led astray. We convened many meetings in which leniency was shown to those who confessed their crimes and severe punishment was meted out to those who did not confess, and policies were honored so that authority was achieved through trust. In this way, we publicly dealt leniently with over 100 criminals who voluntarily gave themselves up to police or who provided help in the investigation or exposing of criminals. We adopted and distributed a "Circular to Family Members of Fugitive Criminals," a "Letter of Admonition," and a "Notice Urging Fugitive Criminals To Give Themselves Up Within a Certain Period"; made house calls issuing advice; and conducted study classes for persons with inside knowledge and for family members of fugitive criminals. In these ways, we clearly explained the policies and laws, warned people of the consequences, used feelings to influence people, and realized very good results. Last year, from January to November, over 950 persons in the city voluntarily gave themselves up. And,

4. The "positional battle," to strengthen control of society. Within the city, we organized 410 militiamen, armed police, joint defense team members, and public security cadres and police to set up duty points at bus stations, dance halls, agricultural produce markets, large stores, and other public areas. At the city's busiest parts, we established public order stations and arranged for public security cadres and police to travel on buses to carry out antipickpocket and antirobbery struggles. At the same time, in the three urban districts and the four surrounding counties, 10,677 public security joint defence organizations were established to patrol day and night and to protect public institutions and buildings. This social control effectively safeguarded public order in the public arenas around the city and prevented crime.

**3. The main avenue for improving public order in a focused way is to do well overall in comprehensive improvement and to treat the cause as well as the symptoms.**

In the past, we paid insufficient attention to comprehensive improvement, and the phenomena existed where we stressed striking at offences but looked lightly on prevention, stressed specialized work and looked lightly on participation by the masses in this work, and stressed sudden actions while neglecting regular work. The masses were not fully mobilized and many people, while hating criminals, were scared of them and dared not struggle against them. This led to a situation where after public order was grasped, the situation improved for a time, but after the "rigorous crackdown" passed, public

order problems reappeared. Practice has made us realize that it is necessary for all of society to handle public order and there needs to be a comprehensive improvement handled comprehensively. It is necessary to both strike against offenders and to carry out prevention work and to handle both the cause and the symptoms concurrently. Based on our city's realities, in concrete work, we mainly grasped the following matters:

1. We established leadership organs at various levels. From the city committee down to the neighborhood (village) committees and in all units, comprehensive public order improvement leadership groups were established; while in units at or above the township level, administrative bodies were established. The cities and the counties (districts) all formulated 5-year plans and annual plans for comprehensive improvement of public order, and responsibility agreements were signed at each level. We also took comprehensive improvement of public order as a major component in assessing the achievements of leading cadres at various levels. This was linked with the economic responsibility system, leadership tenure period targets responsibility system, the selection of advanced units in both material and spiritual civilization, and enterprise grade promotions. If they failed to meet the targets, the incumbents of the posts were subject to a veto vote and the rewards and punishments due to them were meted out.

2. Basic-level construction was strengthened. The 370 township and 11 neighborhood offices throughout the city all assigned a deputy to either solely or mainly handle law work. We increased the number of public security staff by 154 people and they were all assigned to strengthen the basic-level local police stations and traffic police, resulting in all precincts being fully manned. The 113 neighborhood committees of the urban districts all employed a retired cadre or worker who had a strong sense of duty, a good physique, and warmly loved public order work to solely manage comprehensive public order improvement work; and the city financial administration provided an extra 50 yuan a month as a livelihood supplement. There was also a necessary readjustment and strengthening of the security organizations of enterprises and joint defense personnel. At the same time, we also deployed over 500 cadres from the city and district party and government organs to form a work team, and the members all went down to the neighborhood committees to help them grasp comprehensive improvement work. They will be engaged there for three years with rotating staff and will concurrently grasp "popularization of law, socialist education, and public order."

3. The relationship between vertical and horizontal management was put in order and some power was handed down. On the basis of organizing thorough investigation and research, we issued documents under the name of the city party committee and government clearly stipulating that the comprehensive public order improvement organs had the power to circulate notices of commendation, the right to propose punishments, the right to appraise advanced units, and the right to veto

promotions. All work related to comprehensive public order improvement in units under a district, regardless of the unit's level, had to be submitted to unified arrangements by the district, neighborhood, or township. The party and Communist Youth League organizational relationships of the district agencies of the city's public security, industrial and commercial, taxation, and environmental protection departments were managed by the district and the district committee's opinion was sought in the appointment of cadres. In future, in the recruitment of workers, cadres, students, troops, and "farmers changing to nonagricultural employment," people will require references from the neighborhood (village) committee. This will ensure that the grass-roots level organizations have the responsibility and the power to manage public order.

4. We have widely implemented systems engineering for comprehensively improving public order. Some of the districts in our city have, in practice, created many new experiences in comprehensive improvement of public order. We have summed these up in a timely way and gradually perfected two systems and widely implemented these in the city's urban and rural areas. In the urban areas, we have implemented the "531" system. That is, we have implemented the "five leaders" responsibility system involving the district head, the office head, the neighborhood committee head, the resident group head, and the family head; we have carried out "three appraisals" activities, involving appraisal and selection of units which are up-to-standard in public order work, of families which observe law and discipline, and of residents who observe law and discipline; and we have built one road between public order and the joint defense forces. In the rural areas, we have implemented the "553" system. That is, we have implemented the "five heads" responsibility system involving the county head, the township head, the village committee head, the village group head, and the family head. Every village also established five autonomous organizations to look after public order, mediation, education assistance, combatting gambling, and protecting the village. They also developed the "three household appraisals" activities for appraising and selecting households which observed law and discipline, households which are "five good" families and households which have done well in building both material and spiritual civilizations. These two systems engineering projects combine quite well leadership responsibilities with participation by the masses, combine a stimulating with a restraining mechanism, and are certainly effective and good methods for organizing and mobilizing all spheres of society, and especially basic-level organizations and individual families to participate in social improvement and to do well in activities by which the masses engage in preventative and improvement work. After these two systems were widely implemented in the urban and rural areas, the overall implementation of comprehensive improvement measures was effectively promoted. Baoning Street in the city's Eastern District was formerly the most chaotic street. There was much gambling, hooligans frequently caused

trouble, and there were many fights. On one occasion, a piece of watermelon peel resulted in the death of two people, and in a fight between hooligans five people died. Since 1980, 31 people have been tried and sentenced, with six receiving the death penalty; another 11 were sent to education through labor camps. Last year, this neighborhood committee, in accordance with the demands of the "531" system, actively developed the various activities in comprehensive improvement, and a pleasing phenomena appeared by which there were no criminal cases, no public order cases, no disturbances by hooligans, no stealing or theft, no gambling, and no prostitution. The masses happily said that in the past, Baoning was not peaceful during the day or night, but now it is very peaceful.

#### **4. A necessary condition for focused improvement is establishing good law forces and firmly running the police force.**

The law forces, public security cadres, and police are important weapons in the people's democratic dictatorship and are backbone forces in safeguarding public order. Whether the quality of these forces is good or bad, whether their work style is good or bad, and whether their combat capacity is strong or not is of direct relevance to whether or not the focused improvement is effective and whether or not achievements can be consolidated. Overall, our city's law forces are good, but there certainly exist some problems worthy of a high degree of attention. In the past, our city's public order problem was quite serious for a time. Apart from factors such as the striking capacity being insufficiently powerful and comprehensive improvement measures not being implemented, this situation was also due to the fact that the police force was not tightly run. Although the number of public security cadres and policemen who violated discipline and the law was not great, the violations which did occur seriously harmed the image of the law forces and affected the prestige of the party, the government, and the law organs among the masses. Based on this situation, from when we commenced focused improvement of public order, we concurrently grasped the improvement of the police force administration and the public order situation, and tightly combined internal with external improvement. Thereby, we created the necessary conditions for doing well in focused improvement.

On the one hand, we upheld positive education as the main part and stressed grasping ideological rectification well. We targeted the problems which existed among public security cadres and policemen; widely and deeply developed education of the situation, education in ideals and goals, and education in law and discipline; assisted everyone to strengthen their concepts of class struggle, of leadership by the party, of law and discipline and, their consciousness as public servants; and stimulated the public security cadres and police to consciously compare themselves with and examine each other. In the first one month or so of rectification, the law organs and public security cadres and policemen directly under the city

actively examined and explained over 500 problems of various types, returned funds and property which had been improperly obtained, and handed up over 200,000 yuan obtained through indiscriminate demands for levies, fees, and fines. On this basis, we implemented open-door acceptance of "remonstrance." From the leaders of the law departments down to the police officers of the local police stations, image appraisal was carried out at every level. We arranged activities by which leading members gave reports to public security cadres and policemen, while precinct policemen made reports to local residents. At the same time, we adopted the practice of "going outside and inviting others in," and convened over 40 informal meetings attended by all sections of society and all sorts of people. This elicited over 700 suggestions. We also employed 36 "public security cadre and policemen image supervisors" and "clean government supervisors" to assist with the collection and passing up of the masses' opinions. Leading comrades from the public security organs, procuratorial organs, and people's courts went to the people's congress, Chinese People's Political Consultative Conference, discipline inspection committee, supervisory committee, and such organs to solicit opinions. They also placed advertisements in newspapers seeking opinions. This resulted in them receiving over 750 letters. During the image appraisal, the city's public security bureau carried out a major discussion on "Where did we lose our image?" and they earnestly summed up lessons and experiences. Many comrades said with deep feeling: "Over the last few years, our poor image among the masses has mainly been formed 'through the cup' (through improper eating and drinking), 'through the pocket' (through arbitrary levying of fees), and 'through the stick' (through excessive use of police batons to hit people). In short, we have lost the glorious tradition of the law forces." Through opening their doors to accept "remonstrance," through the masses' appraisal and through self-reflection, the law organs located the problems, summed up experiences and lessons and formulated measures for rectification and reform.

On the other hand, we earnestly examined and handled people who had seriously violated law and discipline and firmly transferred personnel who were not suited to law work. As soon as the "rigorous crackdown" started, we punished a policeman who divulged information to criminals, punished a cadre who had committed serious crimes, were strict and impartial in observing discipline, struck at evil practices, and won the masses' support. During the forces centralized readjustment, in the urban areas we established 19 report boxes and eight report telephones for the masses to provide leads in cases of violation of law or discipline by public security cadres and policemen, and organized 53 cadres to carry out investigations. On the basis of investigating and ascertaining the facts, in accordance with relevant stipulations, several public security cadres and policemen were discharged from public employment and some cadres and policemen who were not suited to law work were transferred out of the law departments. Through readjustment, we cleaned up the law forces and strictly enforced discipline. The quality of law cadres and policemen was greatly improved, there was a great change in work style, and combat capacity was clearly strengthened. Thus, the function of the law forces as the main forces in the focused improvement of public order was fully brought into play.

Although the previous work in focused improvement of our country's public order has attained definite results, there still exist many problems and weak links. The tasks of consolidating and developing the situation where confusion has moved towards order are still quite arduous. We must seriously sum up experiences and engage in regular analysis and study of the constantly changing public order situation, constantly maintain sober minds, unwaveringly grasp well the perfection and implementation of all aspects of comprehensive improvement work, and consolidate and develop the previous achievements in focused improvement. Also, we must make new contributions to realizing social stability and long-term public order in our city and to guaranteeing the smooth carrying out of economic construction and reform and opening up.

**Editorial on GATT Membership Opportunity**

93CE0024B Taipei LIEN-HO PAO in Chinese  
10 Sep 92 p 2

[Editorial: "GATT Membership Opportunity Seen From APEC"]

[Text] Information in a report from the General Agreement on Tariffs and Trade (GATT) in Geneva states that: Taiwan's application for membership may be put on the GATT directorate's September agenda; if all goes well, a working group may be formed to examine our application. This is good news. Although we have received repeated information that the major GATT membership states support Taiwan's membership application ever since it was filed in January 1990, we have only heard echoes on the staircase each time the directorate has convened, but no concrete action taken to put it on the agenda. Of course, the major cause for this is external political pressure applied by the Chinese Communists. It is generally recognized by the government and public that in actual diplomacy Taiwan has thrown away its name in order to participate in international organizations. A rather successful example is our participation in the Asian Pacific Economic Cooperation Conference (APEC) under the name of "Chinese Taipei." APEC's Council of Ministers at present convenes its fifth meeting in Bangkok, Thailand. Our Minister of Economics Hsiao Wan-chang [5618 8001 7022] heads a delegation there. The task for this meeting is to discuss issues related to institutionalization, such as establishment of a secretariat and shares of expenses to be borne by members. The ultimate goal is to set up a permanent regional Asian Pacific cooperative organization. We believe that joining APEC is a valuable experience that will allow us to successfully open the door to GATT. While APEC convenes is the best time for us to join GATT; we feel that if seized properly, this rare opportunity will make it very possible to join GATT.

Taiwan joined APEC under the name of the "Chinese Taipei" in 1991. The reason we won the support of other countries is because Taiwan is a major country in international economic activities. The situation with the general support of other countries for our application to GATT is the same. Looking back to 1981 when authorities of the Asian Development Bank changed our name to "Taipei, China" without authorization, we did learn something, although naturally, we were angry at their unjustifiable act: our membership in international organizations was acknowledged on the basis of Taiwan's people, land area, and political power. In other words, based on actual diplomacy, an opportunity for success is created by participation in any international organization. From experience with the Asian Development Bank, APEC, right up until GATT, Taiwan's status in international organizations is acknowledged the same as that of the Chinese Communists. It is only names that are contended. Thus, an American official who solidly supports our participation in GATT said, "Taiwan must find a

solution if names are at issue." It appears that reaching a certain degree of understanding with the Chinese Communists clearly is a matter of great urgency so we can join not only GATT but also other international organizations. We analyze this situation as follows.

1. As joining APEC indicates, the Chinese Communists' superficial contention that it legally represents China in international organizations cannot effectively negate Taiwan's legal membership in international organizations. At present the major countries of the world affirm that Taiwan is a political entity that effectively represents the people and land under its control and moreover, effectively exercises political power. For the majority of countries that have diplomatic ties with the Chinese Communists, affirming that the Chinese Communists are the only legal representative of China does not mean denying Taiwan a certain "international personality" as an effective "political power." The Chinese Communists cannot call for encroaching upon Taiwan's rights in international society via the terms "succession" or "supplanting" in international law. This is the most solid basis for Taiwan to be able to join GATT.
2. We discovered with the Asian Development Bank, APEC, and GATT that the Chinese Communists always take the same posture when we join any international organization, regardless if we join before them or not. First they propose at a rather high level that they are the sole legal representatives of China to deny Taiwan's status in the international organization. In other words, the Chinese Communists seal our application under the "membership" banner of "the right to represent China." Once the world does not accept the "right to represent" argument in order to deny Taiwan legal membership, then the Chinese Communists mildly resist with the issue of "names."
3. International politics are characterized as always realistic and compromising. In the Asian Development Bank, Taiwan sacrificed its name but won a place in international society and membership in an international organization. For a certain number of important countries of the world, this seems to symbolize or reflect an "international reality." However, realistically, this requires Taiwan to yield somewhat, or even make certain sacrifices. Thus, while Taiwan is supported on the issue of membership in international organizations, many countries indicate that we should yield on the issue of "names." Therefore, given that most countries have diplomatic relations with the Chinese Communists, it is a common fact that they want us to sacrifice our name. Led by actual diplomacy, Taiwan has exhibited a spirit of compromise. Although we do not accept the name "Taipei, China," we ultimately still remain in ADB under protest. As for APEC, we join in the name of "China Taipei." The application to GATT is under "Taiwan, Pescadores, Keemoy and Matsu Tarrif Region," simplified to "China Taipei."
4. In actual diplomacy, there seems to be a rule that one's national appellation is unnecessary to join international

organizations; our country's national appellation need have no logical relationship to the name we use in international organizations. This seems to be generally accepted by both governments and people. For example, the Chinese Communists found names acceptable for ADB, APEC and GATT. We can infer from this that it is now generally accepted that "national appellation" and "name" need not be the same when in future joining international organizations. Of course, it is easy to think that this is a method or means for joining organizations derived from actual diplomacy. Likewise, it should also be understood that this simple act does not violate Taiwan's present one-China policy. It does not mean a tacit "two China" or "one China, one Taiwan" policy, nor does it pave the way for "Taiwan independence" or an "independent Taiwan."

5. The emergence of the "name" issue can be seen as yielding or conciliation by international society to the Chinese Communists in actual politics. In other words, Taiwan must win the consent of the Chinese Communists on the issue of "names" to join international organizations. This is clearly a fact that cannot be changed at present. Without their consent, although a majority of countries support Taiwan, we would be unable to attain our aim of membership. This is what we have found with the present workings of GATT. Thus, unfortunately reaching a certain "understanding" with the Chinese Communists on Taiwan's "name" is now our most important work.

Finally, signs now indicate that the name "Chinese Taipei" is rather generally understood by both sides. The reason it can be accepted by both sides is that, on the one hand, for the Republic of China, it can be seen as the Republic of China which Taipei represents. For the Chinese Communists on the other hand, it signifies China in Taiwan. The government on each side can interpret it to their own advantage according to policy needs. The name is acceptable to both provided that it does not overly indicate a "center" or "region." Until a better name appears, "Chinese Taipei" after all is a "name" that grudgingly can be accepted. Although Taiwan firmly supports the name, "Taiwan, Pescadores, Keemoy and Matsu Tarrif Region," we simplify it to "Chinese Taipei." In other words, we are not opposed to the latter term. We believe that this name will bring more opportunities and can allow us to rejoin even more international organizations (including the United Nations).

#### Editorial on Economic Growth Factors

93CE0024A Taipei LIEN-HO PAO in Chinese  
13 Sep 92 p 2

[Editorial: "Analyzing Factors Which Would Effect Current Economic Growth"]

[Text] In a report at the Executive Yuan a day ago about present economic conditions, Kuo Wan-jung [6753 1238 1369], director of the committee on economic construction, Executive Yuan, noted that economic growth in the

first half of 1992 was due to an increased favorable balance of trade. Furthermore, the smaller favorable trade balance has become a factor lowering economic growth. In order to maintain a sizeable economic growth rate, we must depend on increased domestic demand. At the same time, there are two noteworthy items regarding domestic demand in the first half of 1992. One is that consumer consumption grew very rapidly. The other is that investment increases in public utilities and government were especially low. Tersely stated, there are structural changes in the sources of economic growth, the stability and relative fluctuations of which will profoundly affect Taiwan's future economic growth.

The favorable trade balance is the most important factor accounting for Taiwan's economic growth in the past decade. Although it occasionally may be worth disputing whether the favorable trade balance is in exchange for economic growth, Taiwan still is an export-oriented economy. Provided aggregate demand maintains an appropriate level of export growth, it can support the lowest level of economic growth. As everyone knows, Taiwan has been highly dependent on exports to the United States in the past two decades. The fluctuating economic booms in the United States affect the waxing and waning of Taiwan's exports, thereby creating economic fluctuations regarding imports. In the past one or two years economic conditions in the United States have been less than good, so our exports there have been less than desirable. Therefore, major issues regarding Taiwan's present economic growth are whether our export volume still can grow adequately and if the favorable balance of trade still can continue as usual.

The main reason that Taiwan's export volume still can grow despite a decline in the United States' economic performance is the transfer to export zones, accompanied by more foreign investment by Taiwan's enterprises, extending machinery and equipment, greater exports of raw materials and parts, which continue to create a favorable trade balance and sustain Taiwan's economic growth. Furthermore, the effect of this export zone shift has been very prominent in recent years since many more Taiwan businessmen have gone to invest in the mainland. The saying goes that a boat can both float on or be sunk by water. Trade growth due to foreign investment can reduce the favorable trade balance and turn it unfavorable under three conditions, thereby attacking Taiwan's economic growth: One, less foreign investment. Two, large-scale development of import substitution industries for raw materials and parts by the countries invested in. Three, a clear increase in the volume of products produced in foreign-invested factories sold in Taiwan. Although Taiwan's foreign investment activities are in the embryonic stage, we must prudently guard against the emergence of these contrary factors that would destroy domestic economic growth.

Increased consumer spending often makes people both happy and sad, happy because it can inspire economic growth, and sad because it engenders lower savings rates. This can make people worry about future sources of investment. It is hard to reach a final conclusion on the matter. It must be noted that what really is important

here is the structural change in consumption which accompanies increased consumer spending. Everyone knows that people in Taiwan long again overcame the fear of not having enough food or clothing. In the process of normal consumption increases, the structure of consumer spending continues to improve. However, there could be two possibilities with a markedly large jump in consumer spending. One is an improved pace of the consumer spending structure. The other is wasteful spending. If the former occurs, this helps growth in service industry investment which is advantageous to long-term economic growth. If it is the latter, resources are wasted which is detrimental to capital formation. Therefore, since statistical data shows that consumer spending is up greatly, officials in charge should investigate and determine its nature and take appropriate action.

The low increase rate in public utilities and government investment is frightening. Increase rates in public utilities and government investment should maintain normal levels because 1992 is the second year of the six-year plan for national reconstruction, so many huge investment and public construction works will continue to be promoted. The present drop definitely indicates that progress on projects is behind. This is nothing new. For many years now many investigative reports have all indicated that it is hard to acquire land, labor is in short supply, and environmental protection is questionable. Since appropriate measures have never been able to be studied and taken, the backwardness of public utility and government investment can be called an issue of administrative efficiency. Therefore, if the government takes economic growth as an important administrative task, it should start from raising the administrative efficiency of investment.

In sum, Taiwan's economy is under transformation. Important factors affecting economic growth may cause good or bad structural changes. While allowing them to follow their natural course sounds fine as reducing administrative interference, it is hard to avoid creating economic fluctuations. We believe that government officials in charge should study seriously the structural changes of economic growth factors and adopt appropriate guiding measures to maintain Taiwan's stable economic growth.

#### **Editorial on Recent Stock Market Crisis**

*93CE0062B Taipei CHING-CHI JIH-PAO in Chinese  
20 Sep 92 p 2*

[Editorial: "A Stock Market Disaster or Success?"]

[Text] The Taiwan stock market's biggest case of breach of contract and default on payments of 7.8 billion yuan has resulted in the closing of seven securities firms. The responsible authorities have taken emergency measures, which have stopped the stock market slide and recovered market stability in the last few days, and the judiciary is investigating the illegal actions. But while the aftermath

of this incident is still being dealt with, and this huge case of breach of contract and default on payments is not likely to expand, whether it becomes a stock market disaster or success for future stock market operations depends on the authorities actions.

The stock market slump caused by this incident has exposed serious problems that exist in our stock market trading system. Moreover, as the breach of contract involved a default on payments of such a large amount of money and so many securities firms, many are concerned that the stock market fluctuation and capital control will set off a financial storm that will be a huge shock to our whole economy. Some industrial and commercial enterprise leaders and public opinion representatives have recommended that government finance and banking authorities intervene to protect market prices.

Such recommendations have also been made in past cases of stock market slumps due to sudden changes or market incidents. But the government's concerns and actions involving stock market operations should be basically focused not on the ups and downs of the stock market's weighted index, but rather on their impact on the whole economy and the fairness and rationality of the securities trading environment. As ups and downs are normal stock market behavior, even large ones work to adjust the market and return it to normal, so that there is no need for government intervention. When the U.S. Wall Street Stock Market experienced its "black Monday" five years ago, and the Dow Jones Industrial Stock Price Index plunged over 500 points in one day, the Federal Reserve Board immediately poured a large amount of capital into its banking system, in order to prevent a repeat of the 1930's economic panic due to the impact of the stock market crash on the banking system. And when the Japanese Jihching Stock Price Index dropped below the 15,000 mark in mid-August 1992, the Japanese Government immediately announced a comprehensive policy to invigorate the economy, which was also focused on the overall economy instead of simply on revitalizing the stock market. When this case of breach of contract and huge default on payments occurred, our government officials paid attention to its impact on the banking sector, with the central bank temporarily halting open market trading, in order to facilitate normal banking operations. So as it certainly did not have an impact on Taiwan's overall economy, direct government intervention was not required to stop the slide and recover market stability.

But this major incident of breach of contract and default on payments is certainly not over, along with the recovery, because, not only has it yet to be cleared up, but it may still have repercussions on our stock market trading. Our government needs to focus on the serious stock market trading system problems exposed by this case, by taking real corrective steps, instead of treating it lightly because conditions have stabilized, or even investigating and dealing with it as a case of "more thunder than rain," which would eventually result in settling it by leaving it unsettled.

The material that has already been released shows that this was a case of major stock market players experiencing a shortage of funds, resulting in a simultaneous breach of contract and default on payments to individual accounts in various securities firms, which not only had the domino effect of impacting other players, financiers, and investors, but also snowballed into other securities firms. An obvious defect is that the strong wave of speculation on Taiwan's stock market is still not divorced from its crucial problem of being similar to gambling. Large investors can engage in large-scale stock market trading through individual accounts without proof of funds in securities firms. As these involve huge amounts of funds, frequent trades, and shady relations among players and securities firms, securities firms manipulate them and act in collusion, so that the proper credit certification and risk avoidance work is not done, and responsible institutions obviously cannot control such a large market dominance of players. The so-called oversight system exists in name only under such conditions. Just as with Taiwan's rampant pornography, where the police in the area under their jurisdiction in which it occurs claim to be the last to know, it is hard for the responsible authorities to deny their dereliction of duty in regard to these stock market players' irregular transactions that ignore trading rules.

Seen in this light, if this major case of stock market breach of contract and default on payments can further weaken the influence of players and the impact of illegal securities activities, such as the so-called class-3 padded accounts and stocks, securities trading may have hopes of throwing off its bad name of occurring on a "cannibal market," which is the crux of whether the stock market can turn bad into good through learning this lesson. When our stock market price index was at its high of 12,000 points, illegal business was rampant by various types of underground stock exchanges, securities firms, financiers and bonders, and investment advisors, with their illegal and pernicious competition destabilizing market order, nibbling away at and swallowing up markets, and encroaching on stock market development. While the recent years of stock market deflation accompanied by the opening up steps taken by the responsible authorities should have reduced such illegal business, this major case of violation of contract and default on payments shows that sound market trading still needs drastic actions. Our government needs to deal with the incident legally and conscientiously, by taking it as an opportunity to "purge" the stock market and sweep out its evil forces. On the other hand, while shutting down the business of the securities firms involved, the Securities Control Commission should also find ways to help out the well-intentioned third parties who suffered through no fault of their own.

Meanwhile, the government's biggest responsibility to the stock market is to create and maintain a fair and reasonable trading environment. It needs to direct its actions at the glaring defects brought out by this case, such as the lack of investigation and research by the

responsible securities institutions, and the incompleteness and lack of thorough enforcement of stock control matters, oversight system implementation, and the rules for expediting fund transfers and payments, all of which it is not too late to repair despite the losses they have caused. On the other hand, stock market business still needs to be further opened up, especially by increasing the finance quotas of securities firms. Opening up is an effective way to eliminate underground securities activities, and it is only through opening up and establishing a rational trading system that we can stage a comeback, so that the major players can no longer control things, and stock markets can recover their essential attributes.

#### **'Arms Sales Fool' in World Market**

*93CE0059A Taipei TSAI HSUN [WEALTH MAGAZINE] in Chinese No 10, 1 Oct 92 pp 173-177*

[Article by Chang Yu-hua (1728 0645 7520): "Taiwan Is World's 'Arms Sales Fool'—Exposing Facts About 'First-Rate Price, Third-Rate Materiel'"]

[Text] Taiwan's Military Procurement Group stationed in the United States, which for 11 years has tried to get a F-16 fighter procurement plan, in early September finally obtained the agreement of the U.S. administration, which announced that it would sell 150 F-16A/B fighters to Taiwan.

#### **Taiwan Destined To Become 'Arms Sales Fool'**

This arms transaction, amounting to as much as \$5.8 billion, was America's first specific guarantee of Taiwan's security and defense since the severing of diplomatic relations between the Republic of China and America, and it is of great political significance. Thus, although the F-16A/B fighters sold by America to Taiwan are "old aircraft types but new products," and are not the military's expected F-16C/D fighters, the military, under American pressure, could only "gladly receive" them and did not have the slightest authority to refuse to buy them. This shows that, in the arms transaction between the Republic of China and the United States, Taiwan is using its economic power to try to get in return U.S. political recognition of Taiwan; also, it is no wonder that the unit prices of materiel that Taiwan procures from America are excessively high, and have become a key topic that is painful for the military to mention. This is not just the case with America. Other countries, such as Germany, France, and the Netherlands, when selling materiel to Taiwan often do so at high prices.

If Taiwan were to buy materiel at high prices that are high-performance weapons able to meet Taiwan's defense needs, then the taxpayers would have nothing to complain about. However, buying "inferior materiel" at high prices not only will not meet defense needs but, on the contrary, will cause the loss of economic benefits. Speaking of the prices of the weapons and equipment on the F-16A/B fighter sold by the United States to Taiwan,

the price of this fighter ordered by Taiwan and to be received by it in 1996, compared with other countries (see Table 1), is the price of the world's most expensive aircraft type. For example, comparing the new fighter, the F-16C/D, procured by Greece, with Taiwan's "old aircraft type but new product," the price difference is \$15 million. Again, comparing the same aircraft type

and equipment, Pakistan procured only one-third the number of F-16A/B fighters than Taiwan, but Taiwan's average procurement unit price was \$13 million more than Pakistan's. All this shows that the high number of fighters procured by the United States from Taiwan not only does not lower the purchase cost but, on the contrary, raises it.

Table 1 Comparison of Prices of Materiel Procured by Taiwan and Other Countries

Country	Item Name	Exporting Country	Quantity	Total Price (in Tens of Thousands U.S. Dollars)	Average Price (in Tens of Thousands U.S. Dollars)	Remarks
Greece	F-16C/D	U.S.	34/6	94,000	2350	contract signed in January 1989
Indonesia	F-16A/B	U.S.	12	20,000	1666.7	quoted price in March 1986
Israel	F-16C/D	U.S.	75	200,000	2666.7	quoted price in May 1988
Malaysia	F-16A/B	U.S.	6/2	21,200	2650	referred to Congress in July 1988
Pakistan	F-16A/B	U.S.	11/20	78,600	2535.5	quoted price in May 1988
Kuwait	Mirage 2000	France	40	172,000	4300	negotiated in August 1988
Jordan	Mirage 2000	France	20	130,000	6500	agreement signed in February 1988
Taiwan	F-16A/B	U.S.	150	580,000	3866.7	referred to Congress in September 1992
Taiwan	Mirage 2000/5	France	60	400,000	6666.7	statement of intent signed in September 1992

Source: *World Arms Trade Statistics*, pp 1873-1876

Speaking of the unit price in 1991 for the high-performance F-15 fighter produced by the United States, each F-15 fighter was procured at a price of more than \$39 million; by comparison, the price of the F-16A/B old-type aircraft procured by Taiwan in 1992 was only \$1 million more, showing that the unit price for materiel procured by Taiwan from the United States tends to be high. This is an indisputable fact.

Besides the United States, there is a similar phenomenon when Taiwan procures materiel from other countries. For example, in the name of "petroleum exploration," Taiwan procured four MHC mine hunters from Germany at a unit price of a little over New Taiwan Dollar (TWD) 8.6 billion, with each ship's unit price calculated at the 1990 TWD value this amounts to about \$86 million. In April 1987 Thailand procured from Germany the same type of mine hunter at a price of only \$17.8 million. This large price difference unavoidably makes people doubt the military's capability for negotiation. Of course, military personnel explain that the price difference stems from the problem of "export licenses," but the difference between the procurement prices of the

ROC and Thailand is as much as five times, so obviously the "export licenses" are not the main factor.

For example, in April 1987 Singapore procured two Hawkeye Airborne Early Warning (AEW) aircraft from the United States at a price of \$600 million, and the ex-factory price was \$56.1 million; if equipment, training, and maintenance are included, the price is about \$300 million. Therefore, the \$300 million that Singapore paid to the United States for each AEW aircraft was a reasonable price, but the U.S.-based Grumman Corporation set a marked price for Taiwan of more than \$600 million per aircraft, showing that in U.S. sales of materiel to Taiwan there is absolutely no reasonable price position.

#### Attitude of "If It Can Be Bought It Is Good" Does Great Harm to Taxpayers

Again, speaking of Japan's procurement, in the same period of time as Taiwan's, of the C-130H transport from the United States, the unit price of the C-130H transport in 1985 was a little over \$16 million. Japan procured from the United States two C-130H transports at a total cost, including parts, auxiliary equipment,

technical data, and personnel training, of \$60 million. Taiwan procured from the United States 12 transports of the same type with attached equipment at a total cost of TWD14.2 billion. Japan procured a small number of C-130 transports at a price per aircraft of \$30 million. Taiwan procured 12 of them at a price per aircraft as high as \$47 million. The number of these aircraft procured by Taiwan was six times that procured by Japan; the price not only was not lower but, on the contrary, was 1.6 times that of Japan's. This price difference shows that Taiwan's materiel procurement is really "a fool's transaction."

There is no other way for Taiwan to buy high-performance weapons and equipment than to make such large outlays, and if it is restricted to the internal environment people can say nothing against it. However, why is it more expensive for Taiwan to buy the same-performance weapons and equipment than it is for other countries? This question is worthy of self-criticism by the military.

It is understood that, when the military procures weapons abroad, it always takes the attitude that, "if it can be bought it is good." Very seldom does the military, through a process of weapon performance, price transactions, and price comparisons, collect data advantageous to Taiwan, after which it makes use of cost-benefit analysis in its negotiations with firms. For example, in the period of time when Sung Ch'ang-chih [1345 7022 1807] was chief of the general staff and Tsou Chien [6760 1017] was commander-in-chief of the Navy, the Navy procured from the United States the 500MD antisubmarine warfare helicopter and the Lungchiang-class fast attack craft, and nobody made a detailed appraisal of them. The result of making this high expenditure was to discover one problem after another, thereby leading to another wasteful expenditure of funds.

Again, the military has no idea of "patent fees." For example, Taiwan, for many years, has spent a lot of money on commissioning foreign firms to refit weapons and equipment. Funds are sent abroad by Taiwan to pay for foreign successes in technical improvement; and the military only gives consideration to making use of these successes, and does not understand that foreign firms make use of Taiwan's successful techniques in refitting, so the military solicits business abroad. Using Taiwan's refitting techniques, the firms help other countries to make a lot of money by packaging while not notifying Taiwan. The military also does not concern itself with the firms' usurpation of patents. Consequently, with Taiwan's prices tending to be high, the outlay for investment in a small amount of refitting is only a case of net expenditure and no returns. In the end, the money goes into the pockets of the firms, making the people who know about this angry.

Actually, "patent fees" will have a great effect on Taiwan's future development of military science and technology and on its future equipment procurement. For

example, Taiwan's procurement of the F-16A/B fighter, if in the future Taiwan integrates the procurement with the development plan for the IDF or the ADF fighter in order to make comparisons, not only will the F-16A/B fighter's performance be upgraded, but also the success in refitting will help other countries to do their refitting. Their refitting outlay will be Taiwan's investment, and the patent rights should belong to Taiwan and not be owned by the firms. If this is the case, military strength can be upgraded and funds can be saved, which will be helpful in the allocation of national defense expenditure. Taiwan made an unwise move in the year that it abandoned its "patent" rights and gave them to the firms. In the final analysis, an arms transaction is a case of spending money where it is needed most. Not only is it a matter concerning a country's existence; it also touches on the negotiations, profits, and business interests. It is not just a question of weapon performance.

Table 2—Comparison of Various Fighter and Equipment Prices

Producing Country	Aircraft Type	Unit Price (in Tens of Thousands U.S. Dollars)	Equipment Price in Tens of Thousands U.S. Dollars)	
U.S.	F-16	1,750,1900	25,0030,00	1990 currency value
France	Mirage 2000	25,002,700	40,006,000	1989 currency value
Russia	MiG-29	30,003,200	40,005,000	1990 currency value
Russia	MiG-31	3,600	45,005,800	1990 currency value
Russia	Su-27	3,600	45,005,800	1990 currency value
Sweden	JAS-31	39,004,200	48,006,000	1989 currency value
Israel	Shahal	20,002,400	25,002,700	1988 currency value
Communist China	Jian-8II	16,002,000	25,002,700	1990 currency value
Taiwan	IDF	35,003,750	45,005,000	1992 currency value

source: *Handbook of World Military Aircraft*

Up to now the military not only does not take seriously the question of "patent fees," but also is full of illusions about the "independent and initiative-holding national defense system." Actually, the "independent and initiative-holding national defense system" is a highly mistaken idea. Up to now the military is still stressing this

idea, and it is no wonder that the outside world criticizes the Ministry of National Defense as a unit that does not have the cost-benefit concept. To set up the "independent and initiative-holding national defense system," the military has over the past more than 10 years invested \$10 billion in arms development, with the result that it has paid a painful price.

**Military Is Most Lacking in Costs Experts, Thus  
Allowing Arms Merchants To Practice Fraud**

Take, for example, the development of the IDF fighter. Compared with other countries, the unit price (see Table 2) of the IDF fighter exceeds the export price of fighters of other countries, but the fighter's performance cannot be compared to that of the F-16, Su-27, and Mirage 2000-5, showing that the question of whether it is necessary to produce the IDF fighter is worthy of discussion. When Taiwan procured from the United States and France the F-16 and Mirage 2000-5 fighters, at the most it bought only the fighters and their auxiliary equipment and did obtain from the United States and France a "technology transfer," showing that for the IDF fighter there is only a packaging capability and there is no force for technical upgrading. Therefore, the military invested more than \$2 billion and still could not overcome the technical obstacles, with the result that more IDF fighters were produced or there was a dependence on the F-16 and Mirage 2000 to fill the gaps in military strength. Analyzed from the cost-benefit viewpoint, there is a need to reduce the output of IDF fighters.

Again, for example, with the "technology" Taiwan procured from the United States it produced on its own the M/48H tank, the cost of each being about \$1.5 million while a M/60A3 tank is only \$1.2 million. Even with the high cost to package the M/48H tank, its performance is not as good as that of the M/60A3 tank. Whether Taiwan needs to develop it is a question worth examining by the military.

In fact, at present in the world all other countries, including the United States, emphasizes that a national defense system should be established under conditions of "international cooperation" in order to lower development and production costs and to improve use-efficiency. Only Taiwan still regards "being independent and holding the initiative" as the highest guiding principle in developing arms, with the result that it has not the slightest capability for holding the initiative and must accept the arms merchants' marked prices, thereby causing a twofold waste of resources.

In addition, there is another very big shortcoming in the way that the military procures weapons and equipment abroad, i.e., it only stresses weapon performance and does not understand the importance of "materiel quality information." This is because the military passively waits for the firm's quoted price and does not

take the initiative to collect information on the procurement prices in foreign countries. The result of this passive waiting can only be a problem with regard to the quoted price, and not as good as taking the initiative to collect information on whether the price could be higher or lower. For example, when Taiwan procures a weapon with the same specifications as a weapon procured by Japan, Singapore, and Thailand, the price is two to four times higher for Taiwan, showing that the military slighting the importance of arms quality information will only allow arms merchants to practice fraud and cause the firms "to strive for gain."

This phenomenon shows that the military is not part of the "business circles." Thus, in the entire procurement process—from implementing the procurement plan, negotiating, making bids, and comparing prices to signing an agreement—the military is unable to master completely quality information, and, except for its being able to buy weapons and equipment, the remaining links in the process are controlled by the firm. If the military is unable to understand the importance of quality information and prices, then it will never be able to extricate itself from the vicious circle of procuring second-grade materiel at high prices.

**Taipei Analyzes Clinton's Trade Stance Toward  
PRC**

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24 Oct 92*

[Text] Washington, Oct. 23 (CNA)—American business leaders will add pressure on Bill Clinton, urging the Democratic presidential nominee to abandon his threat to link US trade with Red China's progress on human rights and other issues.

"We have been in favor of most-favored-nation [MFN] trading status for (Red) China, with no conditions attached. The position has remained unchanged," an official of the National Association of Manufacturers (NAM) said Friday.

She also confirmed that directors of the leading lobbying group for the manufacturing industry will hold a NAM board meeting in Pittsburgh Saturday. It was reported that at the meeting, the NAM directors will vote on a statement reiterating the organization's support for unconditional renewal of Red China's MFN trading status.

The NAM reportedly said in the statement that the imposition of conditions over Red China's MFN status has been ineffective in achieving change (in Mainland China).

Partly because the MFN issue is expected to be "very high profile" in 1993, regardless of who is elected president, the NAM is speaking out on US trade with Red China at this moment.

Last month, Clinton denounced President George Bush's support for renewal of Red China's MFN status, and endorsed legislation that would condition such a renewal on improvement in Red China's record on human rights, arms proliferation, and fair trade.

Moreover, the NAM said in the statement that it supports efforts to reinstate Red China as a contracting party to the General Agreement on Tariffs and Trade in a good light that many of the difficulties American

companies face in doing business in Mainland China would be overcome if Red China were bound by GATT disciplines.

But the NAM said that it will continue to support the US Government in efforts to improve US access to the mainland Chinese market and Red China's protection of US intellectual property rights.

"We also support GATT membership for Taiwan," the organization added.

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